



Dave Yost • Auditor of State



**TALAWANDA SCHOOL DISTRICT  
BUTLER COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Talawanda School District  
Butler County  
131 W. Chestnut St.  
Oxford, Ohio 45056

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 Talawanda School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2011, 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 Talawanda School District, Butler County, Ohio, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis and the required budgetary comparison schedule as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

March 27, 2012

## TALAWANDA SCHOOL DISTRICT, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) Year Ended June 30, 2011

This discussion and analysis provides key information from management highlighting the overall financial performance of the Talawanda School District for the year ended June 30, 2011. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

#### Financial Highlights

Major financial highlights for fiscal year 2011 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$33,405,495. Of this amount, \$17,370,738 may be used to meet the government's ongoing obligations to citizens and creditors.
- ✓ In total, net assets increased by \$5,272,263.
- ✓ The School District had \$36,479,321 in expenses related to governmental activities; only \$4,631,668 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$37,119,916, made up primarily of property and income taxes as well as State Foundation payments, was used to provide for these programs.
- ✓ The General Fund's ending fund balance increased by \$2,610,183 from \$14,576,234 at June 30, 2010 to \$17,186,417 at June 30, 2011.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant, and extracurricular activities. The School District has no business-type activities.

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

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



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

The School District accounts for its activities using many individual governmental funds. The most significant funds, known as major funds, are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. The School District has three major funds: the General Fund, the Debt Service Fund, and the Building Construction Fund. Data for the other governmental funds is combined into a single aggregated presentation.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs.

**Notes to the basic financial statements.** The notes provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the budget for the General Fund.

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**A. Net assets at year-end**

The following table presents a condensed summary of the School District's overall financial position at June 30, 2011 and 2010:

**Governmental Activities**

	<u>FY11</u>	<u>FY10</u>
Current and other assets	\$ 63,922,094	83,567,934
Capital assets	<u>47,722,861</u>	<u>27,437,532</u>
Total assets	<u>111,644,955</u>	<u>111,005,466</u>
Long-term liabilities outstanding	55,820,603	57,427,562
Other liabilities	<u>22,418,857</u>	<u>25,444,672</u>
Total liabilities	<u>78,239,460</u>	<u>82,872,234</u>
Net assets:		
Invested in capital assets, net of debt	11,186,505	11,185,965
Restricted:		
For capital projects	1,097,936	90,422
For debt service	2,953,149	2,448,652
For other purposes	797,167	364,180
Unrestricted	<u>17,370,738</u>	<u>14,044,013</u>
Total net assets	<u>\$ 33,405,495</u>	<u>28,133,232</u>

A large portion of the School District's net assets (33%) reflects its investment in capital assets, less any related debt to acquire those assets that is still outstanding. The School District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The balance of unrestricted net assets (\$17,370,738) may be used to meet the government's ongoing obligations to citizens and creditors.

Total assets only increased by approximately \$639,000, or 1%. The changes in current and other assets and capital assets virtually offset each other as cash and investments were used to fund the construction in progress on the new High School building.

Total liabilities decreased by approximately \$4.5 million, or 5%. Long-term liabilities decreased as the School District continued to make its scheduled bond payments. Taxes receivable decreased during the year due an anticipated decline in collections in the current economic climate, which resulted in a \$3 million decrease in unearned revenue, the offset to taxes receivable.

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**B. Governmental Activities during fiscal year 2011**

The following table presents a condensed summary of the School District's activities during fiscal year 2011 and 2010 and the resulting change in net assets:

	<u><b>FY11</b></u>	<u><b>FY10</b></u>
<b>Revenues:</b>		
Program revenues:		
Charges for services and sales	\$ 1,852,411	1,765,045
Operating grants and contributions	<u>2,779,257</u>	<u>2,763,673</u>
Total program revenues	<u>4,631,668</u>	<u>4,528,718</u>
General revenues:		
Taxes	24,958,506	22,335,749
Grants and entitlements	11,713,470	11,566,756
Investment earnings	109,472	290,843
Miscellaneous	<u>338,468</u>	<u>386,971</u>
Total general revenues	<u>37,119,916</u>	<u>34,580,319</u>
<b>Total revenues</b>	<u><b>41,751,584</b></u>	<u><b>39,109,037</b></u>
<b>Expenses:</b>		
Instruction	18,469,598	18,728,606
Support services:		
Pupil	1,846,274	1,965,441
Instructional staff	2,072,793	2,096,062
Board of Education	54,884	56,906
Administration	2,442,242	2,252,631
Fiscal	1,311,858	1,288,612
Business	711	1,330
Operation and maintenance of plant	2,802,638	3,243,731
Pupil transportation	2,451,417	2,332,428
Central	120,390	100,370
Non-instructional services	839,193	794,801
Interest on long-term debt	2,846,510	1,647,820
Food services	<u>1,220,813</u>	<u>1,079,875</u>
<b>Total expenses</b>	<u><b>36,479,321</b></u>	<u><b>35,588,613</b></u>
Change in net assets	5,272,263	3,520,424
Net assets beginning of year	<u>28,133,232</u>	<u>24,612,808</u>
<b>Net assets end of year</b>	<b>\$ <u><u>33,405,495</u></u></b>	<b><u><u>28,133,232</u></u></b>

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Of the total governmental activities revenues of \$41,751,584, \$4,631,668 is from program revenue. This means that the School District relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, \$24,958,506 (67%) comes from property and income taxes and \$11,713,470 (32%) is from state funding. The School District's operations are reliant upon its property tax levy, income taxes and the state's foundation program.

In total, revenues grew by about 7% during the current year, with most of that increase coming from taxes. The increase in taxes was due to an increase in delinquencies collected during the year and the addition of a pipeline to the 2010 valuations. Total expenditures increased by 3%, largely due to the first full annual interest payment made on Series 2009 School Improvement Bonds that was \$2.3 million during fiscal year 2011 versus \$1.4 million in fiscal year 2010.

***Governmental Activities***

The following table presents the total cost of each of the School District's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 13% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$18,469,598 but program revenue contributed to fund 12% of those costs. Thus, general revenues of \$16,263,129 were used to support the remainder of the instruction costs.

**Governmental Activities**

	<b><u>Total Cost of Services</u></b>	<b><u>Program Revenue</u></b>	<b><u>Revenues as a % of Total Costs</u></b>	<b><u>Net Cost of Services</u></b>
Instruction	\$ 18,469,598	2,206,469	12%	16,263,129
Support services	13,103,207	1,103,715	8%	11,999,492
Non-instructional services	839,193	166,025	20%	673,168
Food service	1,220,813	1,155,459	95%	65,354
Interest on long-term debt	<u>2,846,510</u>	<u>-</u>	0%	<u>2,846,510</u>
<b>Total</b>	<b>\$ <u>36,479,321</u></b>	<b><u>4,631,668</u></b>	<b><u>13%</u></b>	<b><u>31,847,653</u></b>

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**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS**

**Governmental funds**

The School District has three major governmental funds: the General Fund, the Debt Service Fund, and the Building Construction Fund. Assets of these funds comprise \$59,253,872 (94%) of the total \$63,308,954 governmental funds assets.

**General Fund.** Fund balance at June 30, 2011 was \$17,186,417, including \$16,508,277 of unassigned balance, which represents 58% of expenditures for fiscal year 2011. Overall, revenues exceeded expenditures by approximately \$2,610,000 due to an increase in delinquencies collected during the year and the addition of a pipeline to the 2010 valuations while expenditures only increased by approximately 1%.

**Debt Service Fund.** The Debt Service Fund had a fund balance at June 30, 2011 of \$3,023,976, an increase of \$490,967 over the prior fiscal year. The Debt Service Fund is used to accumulate resources to retire the School District's general obligation bonds. All required bond payments were made as schedule during the current fiscal year.

**Building Construction Fund.** The Building Construction Fund had a fund balance at June 30, 2011 of \$16,188,672, an decrease of \$21,470,433 over the prior fiscal year, due to continued construction of the new high school building.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the School District's original and final budgets and actual results are included in the required supplementary information. The School District used conservative estimates, with revenues budgeted at ninety-five percent of actual revenues and expenditures budgeted at one hundred and seven percent of actual expenditures.

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2011, the School District had \$47,722,861 invested in a broad range of capital assets, including land, buildings, equipment, vehicles, and construction in progress. See Note 6 to the financial statements for more detail.

**Governmental Activities**  
**Capital Assets at Year-End**  
**(Net of Depreciation)**

	<u>FY11</u>	<u>FY10</u>
Land	\$ 2,560,594	2,560,594
Construction in progress	29,138,849	7,600,389
Land improvements	275,000	343,646
Buildings and improvements	14,695,286	15,561,853
Furniture and equipment	1,030,004	1,334,579
Vehicles	<u>23,128</u>	<u>36,471</u>
Total	<u>\$ 47,722,861</u>	<u>27,437,532</u>

The School District continued construction on a new high school during the fiscal year, leading to the increase in capital assets.

**Debt.** As of June 30, 2011, the School District had \$50,130,000 outstanding in general obligation school improvement bonds. See Note 11 to the financial statements.

**ECONOMIC FACTORS**

A challenge facing the School District is the future of state funds. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
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School funding continues to be a complex and unstable issue for Ohio school districts. Last year, Mr. John Kasich was elected Governor and his new administration introduced sweeping education reforms and dramatically cut state funding for public schools in Ohio. This new funding model was first introduced as part of the Governor's executive budget bill which is now called Substitute H.B. 153. This new budget scenario replaces the Evidence Based Model formula which was implemented by the previous administration that was only two years old. Substitute H.B. 153 was signed into law circa June 2011.

All public school districts are using a 'bridge formula' to plan state aid for fiscal year 2012 and are currently waiting on the details of the funding model for fiscal year 2013, which have not yet been released.

In November 2004, the School District passed a 1% School District Income Tax that has generated over \$5 million annually. The School District is working hard to maintain a positive general fund balance through the 2016 school year. In an attempt to identify alternative revenue, the Talawanda Board of Education implemented a policy to accept students from other school districts through open enrollment. Revenue from open enrollment totaled \$454,000 for fiscal year 2011. The School District began taking certain cost reduction measures beginning in fiscal year 2008 that continued through fiscal year 2011.

In November 2008, the School District passed a 4.7 mill Bond Issue to build a new High School. The total projected cost of the new 190,000 square foot facility is approximately \$46 million. This cost includes land acquisition of a 154 acre parcel of land just south of the Oxford City limits on Route 27. The City has annexed this land and will provide city services (including water and sewer) to the School District's new building. The building is scheduled to open for students, faculty, and staff in January 2012.

## **REQUESTS FOR ADDITIONAL INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Talawanda School District, 131 West Chestnut Street, Oxford, Ohio 45056.

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# TALAWANDA SCHOOL DISTRICT, OHIO

## Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and investments	\$ 40,904,047
Cash with escrow agents	975,187
Receivables:	
Taxes	20,918,510
Accounts	13,655
Intergovernmental	79,767
Interest	110,136
Supplies inventory	33,670
Prepays	71,106
Restricted assets	202,876
Deferred charges	613,140
Nondepreciable capital assets	31,699,443
Depreciable capital assets, net	<u>16,023,418</u>
<b>Total assets</b>	<u>111,644,955</u>
<b>Liabilities:</b>	
Accounts payable	1,922,795
Accrued wages and benefits	3,111,063
Pension obligation payable	746,385
Unearned revenue	16,417,997
Accrued interest payable	220,617
Noncurrent liabilities:	
Due within one year	2,017,796
Due within more than one year	<u>53,802,807</u>
<b>Total liabilities</b>	<u>78,239,460</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	11,186,505
Restricted for:	
Capital projects	1,097,936
Debt service	2,953,149
Other purposes	797,167
Unrestricted	<u>17,370,738</u>
<b>Total net assets</b>	<u>\$ 33,405,495</u>

See accompanying notes to the basic financial statements.

**TALAWANDA SCHOOL DISTRICT, OHIO**

Statement of Activities

Year Ended June 30, 2011

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 14,693,405	1,155,928	139,051	\$ (13,398,426)
Special education	2,813,547	-	903,342	(1,910,205)
Other instruction	962,646	-	8,148	(954,498)
Support services:				
Pupil	1,846,274	-	252,730	(1,593,544)
Instructional staff	2,072,793	-	174,389	(1,898,404)
Board of Education	54,884	-	-	(54,884)
Administration	2,442,242	-	4,993	(2,437,249)
Fiscal	1,311,858	-	-	(1,311,858)
Business	711	-	-	(711)
Operation and maintenance of plant	2,802,638	-	-	(2,802,638)
Pupil transportation	2,451,417	-	671,603	(1,779,814)
Central	120,390	-	-	(120,390)
Non-instructional services:				
Extracurricular activities	754,808	98,862	-	(655,946)
Community service	84,385	-	67,163	(17,222)
Food service	1,220,813	597,621	557,838	(65,354)
Interest on long-term debt	2,846,510	-	-	(2,846,510)
<b>Total Governmental Activities</b>	<b>\$ 36,479,321</b>	<b>1,852,411</b>	<b>2,779,257</b>	<b>(31,847,653)</b>
 <b>General Revenues:</b>				
Property taxes, levied for general purposes				14,310,672
Property taxes, levied for debt services				3,557,968
Property taxes, levied for capital projects				1,297,814
Income taxes				5,792,052
Grants and entitlements not restricted to specific programs				11,713,470
Investment earnings				109,472
Miscellaneous				338,468
<b>Total general revenues</b>				<b>37,119,916</b>
Change in net assets				5,272,263
Net assets beginning of year				28,133,232
Net assets end of year				<b>\$ 33,405,495</b>

See accompanying notes to the basic financial statements.

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## TALAWANDA SCHOOL DISTRICT, OHIO

Balance Sheet

Governmental Funds

June 30, 2011

	General	Debt Service Fund	Building Construction Fund	Other Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and investments	\$ 18,423,744	2,992,701	16,965,876	2,521,726
Restricted cash	202,876	-	-	-
Cash with escrow agents	-	-	975,187	-
Receivables:				
Taxes	15,355,276	4,143,818	-	1,419,416
Accounts	13,155	-	-	500
Accrued interest	40,220	-	69,913	3
Intergovernmental	-	-	-	79,767
Prepays	71,106	-	-	-
Supplies inventory	-	-	-	33,670
<b>Total assets</b>	<u>34,106,377</u>	<u>7,136,519</u>	<u>18,010,976</u>	<u>4,055,082</u>
<b>Liabilities:</b>				
Accounts payable	94,803	-	1,804,230	23,762
Accrued wages and benefits	2,842,797	-	-	268,266
Pension obligation payable	718,557	-	-	27,828
Compensated absences payable	182,097	-	-	-
Deferred revenue	13,081,706	4,112,543	18,074	1,328,251
<b>Total liabilities</b>	<u>16,919,960</u>	<u>4,112,543</u>	<u>1,822,304</u>	<u>1,648,107</u>
<b>Fund Balances:</b>				
Nonspendable	71,106	-	-	33,670
Restricted	-	3,023,976	16,188,672	2,429,874
Assigned	607,034	-	-	-
Unassigned	16,508,277	-	-	(56,569)
<b>Total fund balances</b>	<u>17,186,417</u>	<u>3,023,976</u>	<u>16,188,672</u>	<u>2,406,975</u>
<b>Total liabilities and fund balances</b>	\$ <u>34,106,377</u>	<u>7,136,519</u>	<u>18,010,976</u>	<u>4,055,082</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
June 30, 2011

<p style="text-align: center;">Total Governmental Funds</p> <hr/>		
40,904,047	<b>Total Governmental Fund Balances</b>	\$ 38,806,040
202,876	Amounts reported for governmental activities in the	
975,187	statement of net assets are different because:	
20,918,510	Capital assets used in governmental activities are not financial	
13,655	resources and therefore are not reported in the funds.	47,722,861
110,136		
79,767	Other long-term assets are not available to pay for current-period	
71,106	expenditures and therefore are not reported in the funds.	2,122,577
33,670		
<u>63,308,954</u>	Deferred charges are not reported in the funds.	613,140
1,922,795	Long-term liabilities, including bonds payable, are not due and payable	
3,111,063	in the current period and therefore are not reported in the funds:	
746,385	General obligation bonds	50,130,000
182,097	Unamortized premiums	1,064,766
18,540,574	Bond accretion	66,932
<u>24,502,914</u>	Compensated absences	1,982,808
	Lease-purchase agreement	2,394,000
	Accrued interest payable	<u>220,617</u>
104,776		
21,642,522	Total	<u>(55,859,123)</u>
607,034		
<u>16,451,708</u>		
<u>38,806,040</u>		
<u>63,308,954</u>	Net Assets of Governmental Activities	\$ <u>33,405,495</u>

## TALAWANDA SCHOOL DISTRICT, OHIO

### Statement of Revenues, Expenditures, and Changes in Fund Balances

#### Governmental Funds

Year Ended June 30, 2011

	General	Debt Service Fund	Building Construction Fund	Other Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 19,081,433	3,464,565	-	1,265,483
Tuition and fees	1,015,933	-	-	-
Interest	10,812	161	91,869	279
Charges for services	-	-	-	597,621
Intergovernmental	10,421,949	1,145,517	-	3,070,718
Other local revenues	444,911	-	794	254,690
<b>Total revenues</b>	<u>30,975,038</u>	<u>4,610,243</u>	<u>92,663</u>	<u>5,188,791</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	13,478,170	-	2,900	624,667
Special education	1,843,104	-	-	939,909
Other instruction	949,166	-	-	13,480
Support services:				
Pupil	1,543,631	-	-	300,529
Instructional staff	1,878,402	-	-	179,514
Board of Education	54,884	-	-	-
Administration	2,381,844	-	-	5,252
Fiscal	1,231,191	55,531	-	19,272
Business	711	-	-	-
Operation and maintenance of plant	2,511,450	-	6,671	14,199
Pupil transportation	1,782,104	-	-	656,700
Central	111,690	-	4,000	4,700
Non-instructional services:				
Extracurricular activities	596,508	-	-	138,126
Community service	-	-	-	81,106
Food service	-	-	-	1,143,666
Capital outlay	2,000	-	21,549,525	10,998
Debt Service:				
Principal	-	1,395,000	-	158,000
Interest and fiscal charges	-	2,668,745	-	123,632
<b>Total expenditures</b>	<u>28,364,855</u>	<u>4,119,276</u>	<u>21,563,096</u>	<u>4,413,750</u>
Net change in fund balance	2,610,183	490,967	(21,470,433)	775,041
Fund balance, beginning of year, restated	14,576,234	2,533,009	37,659,105	1,631,934
Fund balance, end of year	\$ <u>17,186,417</u>	<u>3,023,976</u>	<u>16,188,672</u>	<u>2,406,975</u>

See accompanying notes to the basic financial statements.



# TALAWANDA SCHOOL DISTRICT, OHIO

## Statement of Net Assets

### Fiduciary Funds

June 30, 2011

		Private Purpose Trusts	Agency Funds
		<u>          </u>	<u>          </u>
<b>Assets:</b>			
Equity in pooled cash and investments	\$	<u>9,650</u>	<u>102,683</u>
Total assets		<u><u>9,650</u></u>	<u><u>102,683</u></u>
<b>Liabilities:</b>			
Due to student groups		-	84,152
Due to others		<u>-</u>	<u>18,531</u>
Total liabilities		<u>-</u>	<u><u>102,683</u></u>
<b>Net Assets:</b>			
Held in trust	\$	<u><u>9,650</u></u>	

See accompanying notes to the basic financial statements.



# TALAWANDA SCHOOL DISTRICT, OHIO

## Statement of Changes in Net Assets

### Fiduciary Funds

Year Ended June 30, 2011

		Private- Purpose Trusts
<b>Additions:</b>		
Contributions	\$	<u>3,000</u>
Total additions		<u>3,000</u>
<b>Deductions:</b>		
Community gifts, awards and scholarships	\$	<u>2,500</u>
Total deductions		<u>2,500</u>
Change in net assets		500
Net assets, beginning of year		<u>9,150</u>
Net assets, end of year	\$	<u><u>9,650</u></u>

See accompanying notes to the basic financial statements.

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**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Talawanda School District, Ohio (the "School District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Reporting Entity**

The School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally elected Board of Education (five members) and is responsible for the education of the residents of the School District.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with five organizations, two of which are defined as jointly governed organizations and three as insurance purchasing pools. These organizations include Southwestern Ohio Computer Association, Butler Technology and Career Development Schools, the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Ohio School Plan, and the Butler Health Plan. These organizations are presented in Notes 14 and 15.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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**B. Basis of Presentation**

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program revenues include charges paid by the recipient of the 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 which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

***Fund Financial Statements*** Fund financial statements report detailed information about the School 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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**C. Fund Accounting**

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental and fiduciary.

*Governmental funds* focus 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 School 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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Debt Service Fund* – The debt service fund accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

*Building Construction Fund* – The building construction fund accounts for the activity related to the construction of a new high school.

*Fiduciary Funds* report on net assets and changes in net assets. The School District's fiduciary funds consist of private-purpose trust funds and agency funds. The School District's private-purpose trust funds account for scholarship programs for students. These assets are not available for the School District's use. Agency funds, used for student activities and unclaimed monies, are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**D. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, income taxes, interest, tuition, student fees, and grants.

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 except for unmatured principal and interest on general long-term debt which is recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Also, fiduciary funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

***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.

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

***Deferred Revenue.*** Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2011 which are intended to finance fiscal year 2012 operations have been 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.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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**E. Cash and Investments**

To improve cash management, all cash received by the School District is pooled in central bank accounts. Monies for all funds are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the balance sheet. During fiscal year 2011, the School District's investments were limited to US Treasury notes, US Money market funds, US Agency securities and the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that 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, 2011.

The Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", requires that investments, with certain exceptions, be recorded at their fair value and that changes in the fair value be reported in the operating statement. The School District recorded investments held at June 30, 2011 at fair value.

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to agency funds, certain trust funds, and those other funds individually authorized by Board resolution. Interest earnings are allocated to these funds based on average monthly cash balance.

**F. Prepays**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and governmental fund financial statements.

**G. Inventory**

Inventories of governmental funds are stated at cost, determined on a first-in, first-out basis and recorded as expenditures in the governmental funds when consumed.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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**H. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The School District defines capital assets as those with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

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

Buildings	30-50 years
Land improvements	10-20 years
Building improvements	10-40 years
Equipment and furniture	5-20 years
Vehicles	5-10 years

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded for compensated absences only if they have matured, for example, as a result of employee resignations and/or retirements.



**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

**K. Fund Balances**

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

***Nonspendable*** – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in a spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

***Restricted*** – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

***Committed*** – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The School District did not have any committed fund balances at year-end.

***Assigned*** – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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*Unassigned* – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**L. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization set-aside.

**M. Net Assets**

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

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

**N. Estimates**

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

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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**2. CHANGE IN ACCOUNTING PRINCIPLES**

The School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clarified fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of a certain fund and restatement of the School District's beginning fund balance:

	General Fund	Other Governmental Funds
	<u>                    </u>	<u>                    </u>
Fund Balance at June 30, 2010	\$ 14,211,481	1,996,687
Change in fund classification	<u>364,753</u>	<u>(364,753)</u>
Restated Fund Balance at June 30, 2010	\$ <u><u>14,576,234</u></u>	<u><u>1,631,934</u></u>

**3. DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies that 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 pass book accounts.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of 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.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures":

Deposits

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. At year-end, \$17,506,185 of the School District's bank balance of \$17,756,185 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Investments

The School District's investments at June 30, 2011 are as summarized as follows:

	<u>Fair Value</u>	<u>Average Maturity (Years)</u>	<u>Concentration of Credit Risk</u>
STAR Ohio	\$ 187,265	n/a	0.75%
U.S. Money Market Funds	4,043,006	n/a	16.14%
FFC	699,827	0.37	2.79%
FHLB	4,834,160	0.38	19.30%
FNMA	4,534,240	0.49	18.10%
FHLMC	4,533,725	0.29	18.09%
U.S. Treasuries	<u>6,219,367</u>	0.38	<u>24.83%</u>
	<u>\$ 25,051,590</u>		<u>100.00%</u>

*Credit Risk.* It is the School District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The School District's investments in FFC, FHLB, FNMA, and FHLMC were rated AAA by Standard & Poor's and Aaa by Moody's. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of a failure of a counter party, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment securities are registered in the name of the School District.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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*Interest Rate Risk.* In accordance with the investment policy, the School District manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to five years.

**4. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and certain tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of the prior January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 with real property taxes. Public utility real property is assessed at 35 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 year 2011 (other than public utility property tax) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after April 1, 2010, on the value listed as of December 31, 2010. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
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**Year Ended June 30, 2011**

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Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2011. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amounts available as advances at June 30, 2011, were \$335,286 in the General Fund, \$31,275 in the Debt Service Fund, and \$91,165 in the Other Governmental Funds.

The assessed values upon which fiscal year 2011 taxes were collected are:

	<u>2010 Second- Half Collections</u>		<u>2011 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 642,477,370	96.42%	640,356,300	93.93%
Tangible Personal Property	<u>23,821,070</u>	3.58%	<u>41,386,395</u>	6.07%
Total Assessed Value	\$ <u>666,298,440</u>	100.00%	<u>681,742,695</u>	100.00%
Tax rate per \$1,000 of assessed valuation		\$56.17		\$56.13

**5. INCOME TAXES**

In November 2004, the voters of the School District passed a 1% school income tax on wages earned by residents of the School District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ended June 30, 2011, the School District recorded income tax revenue of \$5,792,052 in the entity-wide financials and a receivable as of June 30, 2011 of \$2,601,731.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
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**6. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance 7/1/10	Additions	Disposals	Balance 6/30/11
<b>Governmental Activities</b>				
<b>Nondepreciable:</b>				
Land	\$ 2,560,594	-	-	2,560,594
Construction in progress	7,600,389	21,538,460	-	29,138,849
	<u>10,160,983</u>	<u>21,538,460</u>	<u>-</u>	<u>31,699,443</u>
<b>Depreciable:</b>				
Land improvements	1,849,376	-	-	1,849,376
Buildings and improvements	33,929,504	-	-	33,929,504
Vehicles	479,811	-	-	479,811
Equipment and furniture	7,720,102	160,295	(40,668)	7,839,729
Educational media	1,253,844	-	-	1,253,844
Subtotal	<u>45,232,637</u>	<u>160,295</u>	<u>(40,668)</u>	<u>45,352,264</u>
Totals at historical cost	<u>55,393,620</u>	<u>21,698,755</u>	<u>(40,668)</u>	<u>77,051,707</u>
Less accumulated depreciation:				
Land improvements	1,505,730	68,646	-	1,574,376
Buildings and improvements	18,367,651	866,567	-	19,234,218
Vehicles	443,340	13,343	-	456,683
Equipment and furniture	6,385,523	464,751	(40,549)	6,809,725
Educational media	1,253,844	-	-	1,253,844
Total accumulated depreciation	<u>27,956,088</u>	<u>1,413,307</u>	<u>(40,549)</u>	<u>29,328,846</u>
Capital assets, net	\$ <u>27,437,532</u>	<u>20,285,448</u>	<u>(119)</u>	<u>47,722,861</u>



**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	892,221
Special education		33,034
Support services:		
Pupil		7,434
Instructional staff		14,877
Administration		55,146
Fiscal		5,864
Operation and maintenance of plant		281,400
Pupil transportation		16,093
Community service		7,917
Extracurricular activities		22,174
Food service		<u>77,147</u>
Total depreciation expense	\$	<u>1,413,307</u>

**7. RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the School District participated in the Ohio School Plan, a risk sharing pool (Note 15) for liability, property, auto, and crime insurance to address these various types of risk. Settled claims have not exceeded coverage in any of the past three years. There has been no significant reduction in the coverage from last year.

**8. PENSION PLANS**

**School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
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Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81%. The remaining 2.19% of the 14% employer contribution rate was allocated to the Health Care and Medicare B Funds. The School District's required contributions to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$468,000, \$555,000, and \$557,000, respectively; 85% has been contributed for 2011 and 100% for fiscal years 2010 and 2009.

**State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a state-wide, cost-sharing multiple-employer public employee retirement system for licensed teachers and other faculty members employed by the School District. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a bi-weekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchase credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service credit over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final

**TALAWANDA SCHOOL DISTRICT, OHIO**  
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years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Under the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs, and partial reimbursements of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouse and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage of up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members’ beneficiaries.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions to STRS Ohio for the years ended June 30, 2011, 2010, and 2009 were approximately \$2,091,000, \$2,147,000, and \$2,091,000, respectively; 83% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009. The unpaid contribution for fiscal year 2011 is recorded as a liability within the respective funds.

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. The School District's liability is 6.2% of wages paid.

**9. POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for years ended June 30, 2011, 2010, and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law. The School District's contributions to STRS Ohio allocated to post-employment health care for the years ended June 30, 2011, 2010, and 2009 were approximately \$149,000, \$153,000, and \$149,000, respectively; 83% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
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**Year Ended June 30, 2011**

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SERS administers two postemployment benefit plans:

*Medicare Part B Plan* - The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocated a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was 0.76%. The School District contributions for the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$25,000, \$30,000, and \$30,000, respectively; 85% has been contributed for 2011 and 100% for fiscal years 2010 and 2009.

*Health Care Plan* - ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the fiscal year ended June 30, 2011, the health care allocation was 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate was the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care for years ended June 30, 2011, 2010, and 2009 were \$48,000, \$18,000, and \$166,000, respectively; 85% has been contributed for 2011 and 100% for fiscal years 2010 and 2009.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
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The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**10. EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Non-certified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service while administrators receive twenty days of vacation per year. Accumulated, unused vacation time is paid to non-certified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and non-certified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to maximum of 260 days for administrators and 188 days for teachers and classified staff. Upon retirement, payment is made for twenty-five percent of the employee's accumulated sick leave.

**11. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

	Principal Outstanding 7/1/10	Additions	Reductions	Principal Outstanding 6/30/11	Amounts Due in One Year
<i>Governmental Activities:</i>					
Series 2004 GO School Improvement Bonds:					
Serial and term bonds	\$ 2,495,000	-	(240,000)	2,255,000	245,000
Unamortized premiums	185,311	-	(13,392)	171,919	-
Series 2007 GO Refunding Bonds:					
Serial and term bonds	5,315,000	-	(25,000)	5,290,000	50,000
Capital appreciation bonds	55,000	-	-	55,000	-
Bond accretion	43,872	23,060	-	66,932	-
Series 2009 School Improvement Bonds:					
Serial and term bonds	43,660,000	-	(1,130,000)	42,530,000	1,165,000
Unamortized premiums	941,111	-	(48,264)	892,847	-
Lease-purchase agreements	2,552,000	-	(158,000)	2,394,000	163,000
Compensated absences	2,180,268	183,663	(199,026)	2,164,905	394,796
Total	\$ 57,427,562	206,723	(1,813,682)	55,820,603	2,017,796

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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*General Obligation School Improvement Bonds* - The School District issued \$9,214,680 in Series 2004 general obligation bonds for the purpose of school improvements. The bonds pay interest at rates ranging from 2% to 5% and will fully mature on December 1, 2030.

The School District issued \$5,470,000 in Series 2007 general obligation refunding bonds that refunded a portion of the Series 2004 bonds. The refunded bonds pay interest at rates ranging from 4% to 4.5% and will fully mature on December 1, 2030.

The School District issued \$46,049,699 in Series 2009 general obligation school improvement bonds for the purpose of construction of a new high school. This issuance includes \$35,610,000 in Building America Bonds that are eligible to receive subsidy payments from the federal government equal to 35% of the corresponding interest payments. The bonds pay interest at rates ranging from 1.5% to 6.5% and will fully mature on December 1, 2029.

All of the bonds will be retired from the Debt Service Fund.

Principal and interest requirements to retire the general obligations bonds outstanding at June 30, 2011 are as follows:

Fiscal Year Ending June 30,		Principal	Interest	Total
2012	\$	1,460,000	2,644,634	4,104,634
2013		1,620,000	2,576,493	4,196,493
2014		1,685,000	2,517,414	4,202,414
2015		1,760,000	2,448,514	4,208,514
2016		1,970,000	2,373,914	4,343,914
2017-2021		10,565,000	10,447,951	21,012,951
2022-2026		12,180,000	7,176,377	19,356,377
2027-2031		18,890,000	2,108,221	20,998,221
Total	\$	<u>50,130,000</u>	<u>32,293,518</u>	<u>82,423,518</u>

*Lease-purchase Agreements* – During 2005, the Board authorized financing in the amount of \$614,000 for HVAC upgrades and the acquisition of land for the new elementary school with a lease-purchase agreement through the Ohio Association of School Business Official’s Expanded Asset Pooled Financing Program. During 2006, the Board authorized financing in the amount of \$2,593,000 for the construction of a new elementary school with a lease-purchase agreement through the Ohio Association of School Business Official’s Expanded Asset Pooled Financing Program. The future minimum payments for both lease-purchase agreements as of June 30, 2011 were as follows:

**TALAWANDA SCHOOL DISTRICT, OHIO**  
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<u>Ending June 30,</u>		
2012	\$	275,926
2013		273,363
2014		271,535
2015		207,416
2016		207,559
2017-2021		1,040,039
2022-2026		<u>1,046,730</u>
Total		3,322,568
Less amount representing interest		<u>(928,568)</u>
Present value of minimum lease payments	\$	<u><u>2,394,000</u></u>

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences will be paid primarily by the General Fund. Lease-purchase agreements will be paid from the Permanent Improvement Fund.

**12. FUND BALANCE DEFICITS**

At June 30, 2011, the following funds had a deficit fund balance:

Other Governmental Funds:		
IDEA, Part B Fund	\$	22,226
Limited English Proficiency Grant Fund		1,223
Title I Grant Fund		28,981
Improving Teacher Quality Grant Fund		<u>4,139</u>
	\$	<u><u>56,569</u></u>

The deficit fund balances were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.



**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

**13. FUND BALANCES**

Fund balance is classified as nonspendable, restricted, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Debt Service Fund	Building Construction Fund	Other Governmental Funds	Total Governmental Funds
<b><i>Nonspendable</i></b>					
Inventory	\$ -	-	-	33,670	33,670
Prepays	<u>71,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,106</u>
<b><i>Total Nonspendable</i></b>	<b>71,106</b>	<b>-</b>	<b>-</b>	<b>33,670</b>	<b>104,776</b>
<b><i>Restricted for</i></b>					
Food Service Operations	-	-	-	306,762	306,762
Scholarships	-	-	-	157,673	157,673
Athletics	-	-	-	83,238	83,238
Other Purposes	-	-	-	12,948	12,948
Debt Service Payments	-	3,023,976	-	-	3,023,976
Capital Improvements	<u>-</u>	<u>-</u>	<u>16,188,672</u>	<u>1,869,253</u>	<u>18,057,925</u>
<b><i>Total Restricted</i></b>	<b>-</b>	<b>3,023,976</b>	<b>16,188,672</b>	<b>2,429,874</b>	<b>21,642,522</b>
<b><i>Assigned to</i></b>					
Public School Support	130,654	-	-	-	130,654
Encumbrances	146,492	-	-	-	146,492
Future Appropriations	<u>329,888</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>329,888</u>
<b><i>Total Assigned</i></b>	<b>607,034</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>607,034</b>
<b><i>Unassigned (Deficit)</i></b>	<b><u>16,508,277</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(56,569)</u></b>	<b><u>16,451,708</u></b>
<b><i>Total Fund Balance</i></b>	<b>\$ <u>17,186,417</u></b>	<b><u>3,023,976</u></b>	<b><u>16,188,672</u></b>	<b><u>2,406,975</u></b>	<b><u>38,806,040</u></b>

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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**14. JOINTLY GOVERNED ORGANIZATIONS**

*Butler Technology and Career Development Schools*

The Butler Technology and Career Development Schools (Butler Tech), a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school districts' elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. Butler Tech was formed for the purpose of providing vocational education opportunities to the students of the member school districts which includes the students of the School District. The School District has no ongoing financial interest in nor responsibility for Butler Tech. To obtain financial information, write to Butler Tech, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

*Southwestern Ohio Computer Association*

The Southwestern Ohio Computer Association (SWOCA) was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools of the three county consortium supports SWOCA based upon per pupil charge dependent upon the software package utilized. SWOCA is governed by a board of directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. To obtain financial information, write to SWOCA, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

**15. INSURANCE PURCHASING POOLS**

*Butler Health Plan*

The School District participates in the Butler Health Plan (BHP), an insurance purchasing pool, formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. Financial information can be obtained from BHP at 400 North Erie Boulevard, Suite B, Hamilton, OH 45011.

*Ohio School Plan*

The Ohio School Plan (OSP) is an insurance purchasing pool among school districts in Ohio formed for the purpose of establishing a group primary and excess insurance/self-insurance and risk management program. Members agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverage provided by OSP. This coverage includes comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance. The affairs of the corporation are managed by a 13-member Board of Directors made up of school administrators. The School District does not have an equity interest in OSP.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

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*Ohio School Boards Association Workers' Compensation Group Rating Plan*

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

**16. CONTINGENCIES**

**Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

**Litigation**

The School District is party to legal proceedings. The School District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**17. REQUIRED SET-ASIDES**

The School District is required by State statute to annually set aside in the general fund an amount based on the statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end.

The following cash basis information describes the change in the year-end set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

**TALAWANDA SCHOOL DISTRICT, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2011**

		<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside reserve balance as of June 30, 2010	\$	20,452	-	202,876
Current year set-aside requirement		450,738	450,738	-
Current year qualifying expenditures		(613,395)	(467,182)	-
Excess qualified expenditures from prior years		-	-	-
Total		<u>(142,205)</u>	<u>(16,444)</u>	<u>202,876</u>
Set-aside reserve balance as of June 30, 2011	\$	<u>-</u>	<u>-</u>	<u>202,876</u>

The Ohio General Assembly eliminated the requirement for the budget stabilization reserve and effective April 10, 2001, the Board of Education could choose to eliminate the reserve with the exception of rebates received from the Bureau of Workers Compensation. The School District chose not to reduce its budget stabilization reserve.

**18. CONTRACTUAL COMMITMENTS**

As of June 30, 2011, the School District had entered into various construction contracts for the construction of the new high school building under which it had a remaining unperformed and unpaid total commitment of approximately \$13,934,000.

**19. COMPLIANCE AND ACCOUNTABILITY**

The School District was not in compliance with legal provisions as follows:

The School District was in violation of Ohio Revised Code Section 135.12(B), by not designating a depository during the fiscal year, nor executed any depository agreements with its financial institutions.

The School District was in violation of the Ohio Revised Code Section 5705.36(A)(3), by not requesting any amended certificates of estimated resources during the fiscal year and expending funds in excess of estimated resources in three of its other governmental funds.

The School District was in violation of Ohio Revised Code Section 5705.41(B), by incurring expenditures in excess of appropriations in six of its other governmental funds.

The School District was in violation of the American Recovery and Reinvestment Act of 2009, Section 1512(b) and (c), by failing to report vendor payments in excess of \$25,000 related to transportation expenditures during the fiscal year to the Ohio Department of Education.

## TALAWANDA SCHOOL DISTRICT, OHIO

Schedule of Revenues, Expenditures and Changes in Fund  
Balance - Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues:</b>				
Taxes	\$ 17,969,524	17,969,524	18,869,389	899,865
Tuition and fees	888,075	888,075	932,547	44,472
Interest	69,163	69,163	72,627	3,464
Intergovernmental	9,966,063	9,966,063	10,465,136	499,073
Other local revenues	145,534	145,534	152,822	7,288
<b>Total revenues</b>	<u>29,038,359</u>	<u>29,038,359</u>	<u>30,492,521</u>	<u>1,454,162</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	14,180,934	14,180,934	13,235,697	945,237
Special education	2,018,952	2,018,952	1,884,378	134,574
Other instruction	1,005,438	1,005,438	938,420	67,018
Support services:				
Pupil	1,576,020	1,576,020	1,470,970	105,050
Instructional staff	2,021,354	2,021,354	1,886,620	134,734
Board of Education	102,581	102,581	95,743	6,838
Administration	2,487,410	2,487,410	2,321,611	165,799
Fiscal	1,315,106	1,315,106	1,227,447	87,659
Business	1,105	1,105	1,031	74
Operation and maintenance of plant	2,813,901	2,813,901	2,626,339	187,562
Pupil transportation	2,071,394	2,071,394	1,933,324	138,070
Central	127,513	127,513	119,014	8,499
Non-instructional services:				
Extracurricular activities	624,764	624,764	583,120	41,644
Capital outlay	2,143	2,143	2,000	143
<b>Total expenditures</b>	<u>30,348,615</u>	<u>30,348,615</u>	<u>28,325,714</u>	<u>2,022,901</u>
Excess of revenues over (under) expenditures	(1,310,256)	(1,310,256)	2,166,807	(568,739)
<b>Other financing sources (uses):</b>				
Other financing sources	77,171	77,171	81,035	3,864
<b>Total other financing sources (uses)</b>	<u>77,171</u>	<u>77,171</u>	<u>81,035</u>	<u>3,864</u>
Net change in fund balance	(1,233,085)	(1,233,085)	2,247,842	(564,875)
Fund balance, beginning of year	15,643,348	15,643,348	15,643,348	
Prior year encumbrances appropriated	153,199	153,199	153,199	
Fund balance, end of year	\$ <u>14,563,462</u>	<u>14,563,462</u>	<u>18,044,389</u>	

See accompanying notes to required supplementary information.

## TALAWANDA SCHOOL DISTRICT, OHIO

Notes to Required Supplementary Information

Year Ended June 30, 2011

### **Budgetary Process**

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

*Tax Budget* Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Butler County Budget Commission for rate determination.

*Estimated Resources* Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary schedules reflect the amounts in the final amended certificate issued during fiscal year 2011.

*Appropriations* Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolutions, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the schedules of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. The Board passed supplemental appropriations during the fiscal year.

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

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

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

Certain funds accounted for as separate funds internally with legally adopted budgets (budget basis) do not meet the definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (GAAP basis).

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as expenditures when liquidated (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General</u>
Net change in fund balance - GAAP Basis	\$ 2,610,183
Increase / (decrease):	
Due to inclusion of Uniform School Supply Fund	(21,646)
Due to inclusion of Public School Support Fund	(12,605)
Due to revenues	(187,721)
Due to expenditures	(50,811)
Due to other sources (uses)	81,035
Due to encumbrances	<u>(170,593)</u>
Net change in fund balance - Budget Basis	\$ <u>2,247,842</u>

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**TALAWANDA SCHOOL DISTRICT  
BUTLER COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Non-Cash Assistance (Food Distribution): National School Lunch Program	2011	10.555		\$72,326		\$72,326
Cash Assistance: National School Breakfast Program	2011	10.553	\$105,959		\$105,959	
National School Lunch Program	2011	10.555	<u>370,661</u>		<u>370,661</u>	
Total Child Nutrition Cluster			<u>476,620</u>	<u>72,326</u>	<u>476,620</u>	<u>72,326</u>
Total U.S. Department of Agriculture			<u>476,620</u>	<u>72,326</u>	<u>476,620</u>	<u>72,326</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States	2011	84.027	530,558		508,306	
	2010	84.027	65,672		75,078	
ARRA - Special Education - Grants to States	2011	84.391	296,320		283,084	
	2010	84.391	<u>24,643</u>		<u>47,677</u>	
Total Special Education Grants to States			917,193		914,145	
Special Education - Preschool Grants	2011	84.173	8,856		7,219	
	2010	84.173	-		1,552	
ARRA - Special Education - Preschool Grants	2010	84.392	-		78	
Total Special Education - Preschool Grants			8,856		8,849	
Total Special Education Cluster			<u>926,049</u>		<u>922,994</u>	
Title I Grants to Local Educational Agencies	2011	84.010	358,365		345,497	
	2010	84.010	22,642		45,829	
ARRA - Title I Grants to Local Educational Agencies	2011	84.389	90,829		80,903	
	2010	84.389	9,838		20,842	
ARRA - Title I Grants to Local Educational Agencies Delinquent	2010	84.389	4,310		5,427	
Total Title I Grants to Local Educational Agencies			<u>485,984</u>		<u>498,498</u>	
Education Technology State Grants	2011	84.318	1,248		1,128	
Safe and Drug Free Schools and Communities	2010	84.186	-		905	
English Language Acquisition Grants	2011	84.365	18,800		17,648	
	2010	84.365	-		2,478	
Total English Language Acquisition Grants			<u>18,800</u>		<u>20,126</u>	
Improving Teacher Quality State Grants	2011	84.367	136,887		120,315	
	2010	84.367	4,000		9,975	
Total Improving Teacher Quality State Grants			<u>140,887</u>		<u>130,290</u>	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education	2011	84.394	666,183		666,183	
ARRA - Race to the Top	2011	84.395	3,690		2,921	
Total U.S. Department of Education			<u>2,242,841</u>		<u>2,243,045</u>	
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><b>\$2,719,461</b></u>	<u><b>\$72,326</b></u>	<u><b>\$2,719,665</b></u>	<u><b>\$72,326</b></u>

*The accompanying notes to this schedule are an integral part of this schedule.*

**TALAWANDA SCHOOL DISTRICT  
BUTLER COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Talawanda School District's (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

**NOTE D - MATCHING REQUIREMENTS**

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



# Dave Yost • Auditor of State

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

Talawanda School District  
Butler County  
131 W. Chestnut St.  
Oxford, Ohio 45056

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 Talawanda School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 27, 2012, wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-04 described in the accompanying schedule of findings to be a material weakness.

### 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-01 through 2011-03.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 27, 2012.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the audit committee, Board of Education, federal awarding agencies and pass-through entities, and others within the Government. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

March 27, 2012



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Talawanda School District  
Butler County  
131 W. Chestnut St.  
Oxford, Ohio 45056

To the Board of Education:

### Compliance

We have audited the compliance of Talawanda School District, Butler County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Talawanda School District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Talawanda School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2011-05.

### Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2011-05. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 27, 2012.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

March 27, 2012

**TALAWANDA SCHOOL DISTRICT  
BUTLER COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA #84.394: ARRA – State Fiscal Stabilization Fund-Education  Special Education Cluster: CFDA #84.027: Special Education-Grants to States CFDA #84.391: ARRA – Special Education-Grants to States CFDA #84.173: Special Education-Preschool Grants CFDA #84.392: ARRA – Special Education-Preschool Grants  CFDA #84.010: Title I CFDA #84.389: ARRA – Title I
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2011-01**

**Noncompliance**

**Ohio Revised Code, Section 135.12(B)**, provides, in part, that each governing board other than the state board of deposit shall meet every five years on the third Monday or such regularly scheduled meeting date of the month preceding the date of the expiration of its designation of depositories for the purpose of designating the public depositories of the public moneys of the subdivision, and at such meeting or any adjourned session thereof, shall designate such public depositories and award the public moneys of the subdivision to and among the public depositories so designated for the period of five years commencing on the date of the expiration of the next preceding designation. The District did not designate a depository during the audit period nor execute any depository agreements for the District's accounts at a financial institution. A depository agreement should include a requirement that a pledge of collateral: (1) be in writing, (2) be executed contemporaneously with the acquisition of the asset by the depository institution, (3) be approved by the financial institution's board of directors or loan committee and the approval must be reflected in the minutes of the financial institution's board or committee, and (4) be an official record of the depository institution continuously since it was executed. Requirements (1) through (4) are necessary under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), to assure the pledge would be valid in the event of a claim under FDIC.

The District has a policy which stipulates that the Board shall adopt such resolution every five years.

Entities not having a depository agreement with a depository could risk public funds not being covered by collateral if the depository ceases to exist.

We recommend that the District approve the official designation of a depository.

**Officials' Response:**

The district has notified First Financial Bank that their depository agreement has expired and has requested an updated 5 year agreement for presentation at the BOE's April 2012 meeting.

Despite the above mentioned expired agreement, the district's deposits are not at risk and are secured by a pool of securities totaling \$237 million as shown on First Financial Bank's second quarter public funds collateralized report dated January 9, 2012.

**AOS Conclusion:**

While the financial institution remains solvent at this time, under FIRREA there are 4 requirements that are necessary to assure that the pledge would be valid in the event of a claim. Under FIRREA one of the requirements is that a depository agreement be in place which includes a written pledge of collateral. Without having this depository agreement in place the District may not be entitled to recovery of funds should the financial institution cease to exist.



**FINDING NUMBER 2011-02**

**Noncompliance**

**Ohio Revised Code, Section 5705.36(A)(3)**, states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater than the amount included in an official certificate and the legislative authority intends to appropriate and expend the excess revenue, the fiscal officer shall certify the amount of the excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the excess.

The District did not request any amended certificates of estimated resources during the audit period. The original certificate of estimated resources was dated July 2, 2010. Significant positive and negative budget and actual receipt variances were noted indicating that amended certificates of estimated resources should have been issued. The Board expended funds in excess of estimated resources.

<b>Fund</b>	<b>Estimated Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>	<b>Estimated Resources</b>	<b>Expenditures</b>	<b>Variance</b>
IDEA Part B (516)	\$0	\$917,192	\$917,192	\$9,669	\$937,998	(\$928,329)
Title I (572)	0	485,983	485,983	23,648	498,615	(474,967)
Building (004)	0	118,358	118,358	8,833,531	34,687,430	(25,853,899)

Failure to request amended certificates of estimated resources can result in overspending and negative fund balances. We recommend the District request amended certificates of estimated resources as necessary.

**Officials' Response:**

The district has not historically submitted amended certificates of estimated resources during the fiscal year but will do so going forward for any change in revenue. Past practice was to simply file the amended certificates with the county auditor at the beginning and end of each fiscal year.

The district does not rely on the amended certificates to control spending especially in the funds noted in the audit report. Funds 516 and 572 are federal grants that are tightly controlled by ODE's CCIP process which prohibits spending in excess any approved limits. Spending for Building (004) fund was controlled through monthly contractor pay applications which were approved and tracked on a construction sub-ledger by the Architect, Construction Manager and district.

**FINDING NUMBER 2011-03**

**Noncompliance**

**Ohio Revised Code, Section 5705.41(B)**, states no taxing authority shall make any expenditures of money unless it has been appropriated.

**FINDING NUMBER 2011-03  
 (Continued)**

Expenditures exceeded appropriations at June 30, 2011 as follows:

<b>Fund</b>	<b>Appropriations</b>	<b>Expenditures</b>	<b>Variance</b>
IDEA Part B (516)	\$122,520	\$937,998	\$(815,478)
Fiscal Stabilization (532)	0	666,183	(666,183)
Title I (572)	28,630	498,615	(469,985)
Permanent Improvement (003)	994,174	1,155,910	(161,736)
Building (004)	30,118,324	34,687,430	(4,569,106)
Food Service (006)	1,027,764	1,075,873	(48,109)
Student Managed Activities (200)	2,629	92,315	(89,686)

Failure to properly amend appropriations and limit expenditures by appropriations may result in negative fund balances. We recommend the District take steps to ensure appropriations are being properly approved, monitored, and recorded in the ledgers. No expenditure should be made unless funds have been sufficiently appropriated.

**Officials' Response:**

The district has not historically appropriated these accounts during the fiscal year but will do so going forward. Past practice has been to run a year-end procedure called SET-BAL to appropriate such funds.

The district relies on other compensating controls to ensure negative balances do not occur especially in the funds mentioned in the report. The PI (003) Fund is tracked on a separate sub-ledger and closed FY'11 with an unencumbered positive fund balance totaling \$1.4 million which was 16.3% higher vs the prior year. All Food Service (006) fund transactions are tracked on a detailed monthly profit/loss statement and the fund closed FY'11 with an unencumbered positive balance of \$403k which was 6% higher versus the prior year. The other funds mentioned in report are addressed in the response Finding #2011-03 above.

**FINDING NUMBER 2011-04**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The District lacks management oversight in the posting of financial activity. This lack of oversight resulted in the following conditions:

- The District understated original budget expenditures for the General Fund by \$190,476 and understated final budget expenditures for the General Fund by \$2,022,901.
- The District overstated original budget revenues for the General Fund by \$113,025 and overstated final budget revenues for the General Fund by \$1,458,026.

The District posted adjustments to the financial statements to correct the above errors.

**FINDING NUMBER 2011-04  
 (Continued)**

The lack of proper management oversight could result in material misstatement relating to financial data. To improve record keeping and accountability of financial activity we recommend that all financial activity, including budget amounts, be properly posted and reported. The District should develop review procedures over the recording and reporting of District financial activity.

**Officials' Response:**

The district has historically relied on the Baird Five Year forecasting model to set BOY revenue and expenditure amounts for most GRF accounts in the general ledger. The Baird model is then updated monthly with actual closing amounts which then become the basis for variance analysis as well as preparation of the monthly financial statements which are submitted to the BOE. Past practice has been to run a year-end procedure called SET-BAL to sync all GFR accounts to year-end actuals and the Baird model.

The district closed FY'11 with a GRF unencumbered cash balance totaling \$18 million which was approximately 14.2% higher versus the prior year.

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

**Noncompliance / Significant Deficiency – 1512 Vendor Reporting**

<b>Finding Number</b>	2011-05
<b>CFDA Title and Number</b>	ARRA-State Fiscal Stabilization Fund, CFDA #84.394
<b>Federal Award Number / Year</b>	2011
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**American Recovery and Reinvestment Act of 2009 (ARRA), Section 1512(b) & (c)** requires any entity that receives certain Recovery funds directly from the Federal government (including recovery funds received through grant, loan or contract other than an individual) to submit a report to the Federal Agency not later than 10 days after the end of each calendar quarter in which the Federal Recovery funds were received. **Section 1512(c)(4)** requires detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282), allowing aggregate reporting on awards below \$25,000 or to individuals. Further, **Office of Management and Budget Memo M-09-21 dated June 22, 2009** states that prime recipients may choose to delegate certain reporting requirements to sub-recipients. This memo also states three additional data elements associated with any vendors receiving funds from the prime recipient for any payments greater than \$25,000 must be reported.

The **Ohio Department of Education's American Recovery and Reinvestment Act Reporting Guidance** states the Ohio Department of Education (ODE), as a prime recipient of ARRA funding, is required to report quarterly to the federal government data on ARRA programs. ODE distributes ARRA funds to local education agencies (LEAs) as sub recipients and must collect quarterly data from LEAs to meet the reporting requirements associated with ARRA funding. Among the items to be reported, the vendor name and zip code are required for each vendor that received a single payment, from a single ARRA grant, in excess of \$25,000. If the vendor received multiple payments less than \$25,000, even when the total of the payments exceeds \$25,000, the vendor information should *not* be reported.

**FINDING NUMBER 2011-05  
(Continued)**

During 2011, the District paid \$651,110 in transportation expenditures with the school fiscal stabilization grant (approximately \$54,000 single monthly payments). The District did not report these payments to ODE on the 1512 ARRA Subrecipient Vendor report.

Noncompliance with 1512 reporting requirements could result in temporary suspension or permanent loss of Federal Recovery funding. The District should report all vendors receiving single payments greater than \$25,000 on the ODE 1512 ARRA Subrecipient Vendor report.

**Officials' Response:**

The transportation amount was erroneously omitted from the 'information only' report submitted to ODE. However, the transaction was properly recorded in the district's financial statements for FY'11.

The district will ensure compliance with all ARRA information only requirement should such federal stimulus monies ever become available again.

**TALAWANDA SCHOOL DISTRICT  
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2011**

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>
2010-001	Failure to include State Fiscal Stabilization Grant receipts and expenditures on the Schedule of Expenditures of Federal Awards.	Yes	
2010-002	OMB Circular A-81, Attachment B, failure to complete semi-annual certificates.	Yes	

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**TALAWANDA SCHOOL DISTRICT  
BUTLER COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2011**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2011-05	The School District will insure that all future ARRA Section 1512(b) and (c) vendor reporting will be reported correctly by incorporating the recommendation into the reporting process.	Immediate	Mike Davis

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Talawanda School District  
Butler County  
131 W. Chestnut St.  
Oxford, Ohio 45056

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Talawanda School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on April 18, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

March 27, 2012





# Dave Yost • Auditor of State

**TALAWANDA SCHOOL DISTRICT**

**BUTLER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 10, 2012**