



Mary Taylor, CPA
Auditor of State

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Harrison Hills City School District
Harrison County
P.O. Box 356
422 Normal Street
Hopedale, Ohio 43976

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 Harrison Hills City School District, Harrison County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 opinion.

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 Harrison Hills City School District, Harrison County, Ohio as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do 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 be read it in conjunction with this report in assessing the results of our audit

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is 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. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects, in relation to the basic statements taken as a whole.

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

Mary Taylor
Auditor of State

July 11, 2007

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$488,788 which represents a 4.88% increase from 2005.
- General revenues accounted for \$14,526,888 in revenue or 83.41% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$2,889,286 or 16.59% of total revenues of \$17,416,174.
- The District had \$16,927,386 in expenses related to governmental activities; \$2,889,286 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,526,888 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$14,104,190 in revenues and \$13,645,465 in expenditures. During fiscal 2006, the general fund's fund balance increased \$430,270 from \$4,197,693 to \$4,627,963.
- The permanent improvement fund had \$445,213 in revenues and \$368,222 in expenditures. During fiscal year 2006, the permanent improvement fund's fund balance increased \$76,991.

Using these Basic Financial Statements

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental benefits self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-49 of this report.

The District as a Whole

Net assets have been restated as of June 30, 2005 as described in Note 3.B. The Statement of Net Assets provides the perspective of the District as a whole.

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

	Net Assets	
	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 13,959,224	\$ 13,555,131
Capital assets	<u>3,496,411</u>	<u>3,477,831</u>
Total assets	<u>17,455,635</u>	<u>17,032,962</u>
<u>Liabilities</u>		
Current liabilities	5,748,564	5,578,084
Long-term liabilities	<u>1,208,129</u>	<u>1,444,724</u>
Total liabilities	<u>6,956,693</u>	<u>7,022,808</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,346,941	3,283,813
Restricted	3,253,446	2,938,558
Unrestricted	<u>3,898,555</u>	<u>3,787,783</u>
Total net assets	<u>\$ 10,498,942</u>	<u>\$ 10,010,154</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$10,498,942. Of this total, \$3,898,555 is unrestricted in use.

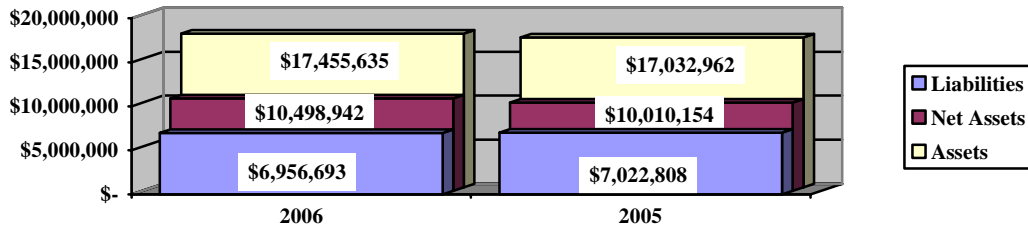
**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

At year-end, capital assets represented 20.03% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$3,346,941. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$3,253,446, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,898,555 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



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

	Change in Net Assets	
	Governmental Activities 2006	Restated Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 539,330	\$ 529,804
Operating grants and contributions	2,329,988	2,387,282
Capital grants and contributions	19,968	-
General revenues:		
Property taxes	4,509,183	4,531,733
Grants and entitlements	9,648,944	9,523,591
Investment earnings	309,014	154,081
Other	59,747	49,769
Total revenues	<u>17,416,174</u>	<u>17,176,260</u>
Extraordinary item	<u>-</u>	<u>65,792</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

	Change in Net Assets	
	Governmental	Restated
	Activities	Governmental
	<u>2006</u>	<u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 7,015,281	\$ 7,018,008
Special	2,021,300	1,835,960
Vocational	310,688	324,824
Other	105,890	-
Support services:		
Pupil	840,241	813,978
Instructional staff	476,080	369,319
Board of education	135,382	157,088
Administration	1,421,936	1,438,019
Fiscal	490,890	457,587
Operations and maintenance	1,312,676	1,270,040
Pupil transportation	1,374,676	1,245,826
Central	188,590	250,420
Food service operations	835,140	758,396
Operations of non-instructional services	60,418	68,024
Extracurricular activities	330,072	322,348
Interest and fiscal charges	<u>8,126</u>	<u>10,377</u>
Total expenses	<u>16,927,386</u>	<u>16,340,214</u>
Change in net assets	488,788	901,838
Net assets at beginning of year (restated)	<u>10,010,154</u>	<u>9,108,316</u>
Net assets at end of year	<u>\$ 10,498,942</u>	<u>\$ 10,010,154</u>

Governmental Activities

Net assets of the District's governmental activities increased \$488,788. Total governmental expenses of \$16,927,386 were offset by program revenues of \$2,889,286 and general revenues of \$14,526,888. Program revenues supported 17.00% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 81.29% of total governmental revenue.

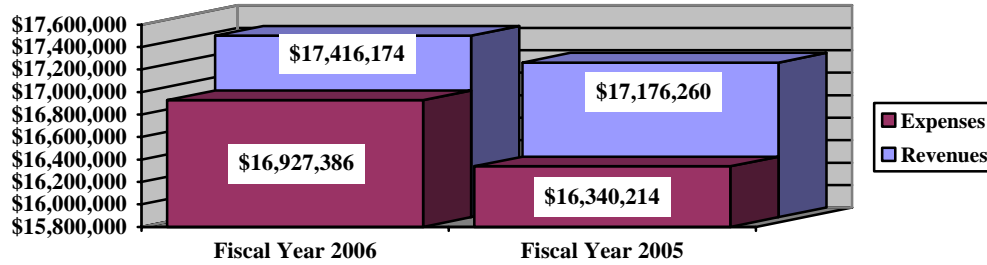
The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,453,159 or 55.85% of total governmental expenses for fiscal 2006.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

Governmental Activities - Revenues and Expenses



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

	Governmental Activities			
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 7,015,281	\$ 6,288,718	\$ 7,018,008	\$ 6,158,013
Special	2,021,300	1,422,238	1,835,960	1,262,755
Vocational	310,688	310,688	324,824	324,824
Other	105,890	105,890	-	-
Support services:				
Pupil	840,241	550,339	813,978	537,347
Instructional staff	476,080	334,318	369,319	266,977
Board of education	135,382	135,382	157,088	157,088
Administration	1,421,936	1,312,833	1,438,019	1,325,089
Fiscal	490,890	490,890	457,587	457,587
Operations and maintenance	1,312,676	1,312,676	1,270,040	1,270,040
Pupil transportation	1,374,676	1,349,457	1,245,826	1,211,812
Central	188,590	158,388	250,420	221,275
Food service operations	835,140	31,311	758,396	(3,561)
Operation of non-instructional	60,418	60,418	68,024	68,024
Extracurricular activities	330,072	166,428	322,348	155,481
Interest and fiscal charges	8,126	8,126	10,377	10,377
Total expenses	<u>\$ 16,927,386</u>	<u>\$ 14,038,100</u>	<u>\$ 16,340,214</u>	<u>\$ 13,423,128</u>

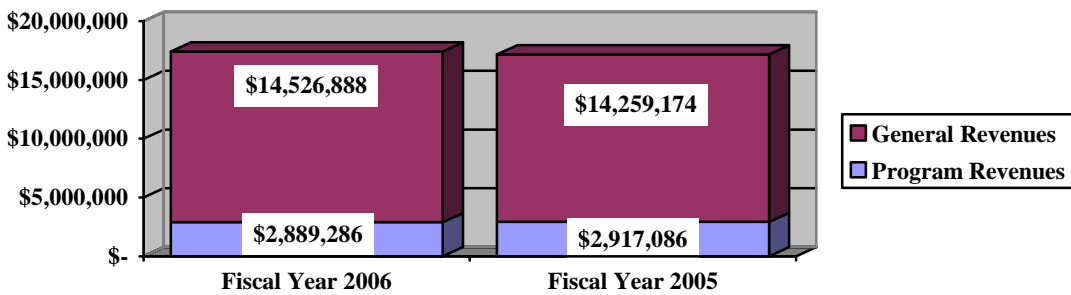
**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 85.98% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.93%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$6,016,906, which is higher than last year's total of \$5,647,523. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 4,627,963	\$ 4,197,693	\$ 430,270	10.25 %
Permanent Improvement	968,844	891,853	76,991	8.63 %
Other Governmental	<u>420,099</u>	<u>557,977</u>	<u>(137,878)</u>	(24.71) %
Total	<u>\$ 6,016,906</u>	<u>\$ 5,647,523</u>	<u>\$ 369,383</u>	6.54 %

General Fund

The District's general fund balance increased \$430,270. The increase in fund balance can be attributed to several items related to increasing revenues still exceeding increased expenditures.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,207,119	\$ 3,939,404	\$ 267,715	6.80 %
Earnings on investments	236,827	119,858	116,969	97.59 %
Extracurricular	11,510	13,895	(2,385)	(17.16) %
Intergovernmental	9,608,386	9,478,824	129,562	1.37 %
Other revenues	<u>40,348</u>	<u>35,690</u>	<u>4,658</u>	13.05 %
 Total	 <u>\$ 14,104,190</u>	 <u>\$ 13,587,671</u>	 <u>\$ 516,519</u>	 3.80 %
<u>Expenditures</u>				
Instruction	\$ 8,028,792	\$ 7,753,669	\$ 275,123	3.55 %
Support services	5,319,941	5,272,002	47,939	0.91 %
Non-instructional services	35,968	41,670	(5,702)	(13.68) %
Extracurricular activities	136,257	120,037	16,220	13.51 %
Facilities acquisition and construction	71,833	10,973	60,860	554.63 %
Debt service	<u>52,674</u>	<u>57,155</u>	<u>(4,481)</u>	(7.84) %
 Total	 <u>\$ 13,645,465</u>	 <u>\$ 13,255,506</u>	 <u>\$ 389,959</u>	 2.94 %

Permanent Improvement Fund

The permanent improvement fund had \$445,213 in revenues and \$368,222 in expenditures. During fiscal year 2006, the permanent improvement fund's fund balance increased \$76,991 from \$891,853 to \$968,844.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$14,462,020 and final budgeted revenues and other financing sources were \$14,724,619. Actual revenues and other financing sources for fiscal 2006 was \$14,726,100. This represents a \$1,481 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$16,347,288, which were reduced to \$16,057,832 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$15,059,677, which was \$998,155 less than the final budget appropriations.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

Capital assets have been restated as of June 30, 2005 as described in Note 8.A. At the end of fiscal 2006, the District had \$3,496,411 invested in land, construction in progress, buildings and improvements, furniture and equipment, vehicles and infrastructure. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005 (Restated)
Land	\$ 10,561	\$ 10,561
Construction in Progress	43,430	-
Building and improvements	2,417,873	2,528,704
Furniture and equipment	375,277	390,356
Vehicles	639,979	520,613
Infrastructure	9,291	9,601
	\$ 3,496,411	\$ 3,459,835

The overall increase in capital assets of \$18,580 is due to capital outlays of \$294,145 exceeding depreciation expense of \$275,565 in the fiscal year.

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

Debt Administration

The District had \$149,470 in a capital lease liability at June 30, 2006. The District had no other debt outstanding at June 30, 2006. See Note 9 to the basic financial statements for additional information on the District's capital leases.

Current Financial Related Activities

As the Board of Education continues to accomplish and set new goals, stated in the District's Continuous Improvement Plan (CIP), meeting the needs of the students continues to be their priority. The CIP has been instrumental in helping the District to plan financially in order to improve academics, maintain buildings and grounds, and other areas related to the District's operations. In order to achieve these goals, it has been important that a high standard of accountability be continued and prudent fiscal management maintained.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

Presently, the District is able to end fiscal year 2006 through fiscal year 2009 in the black. However, beginning in fiscal year 2007, the District's expenditures will begin to exceed their revenue. The Board of Education and Administration will continue to closely monitor its revenues and expenditures. This will be done in order to help bring expenditures more in line with the revenue. However, if this can not be accomplished, the District is looking at a negative fund balance at the end of fiscal year 2010. The forecast is based on the most current information and with a projection of what funding will be received from the State in the next biennium budget. Therefore, the status of this forecast could very easily change. The District relies heavily on property taxes and the state foundation program. Therefore, the newly enacted legislation, HB66, has a significant impact on the District's revenue. This HB changes the way Tangible Personal Property is taxed, in addition to other changes to the state's foundation program. If the changes occur in the manner that it are predicted, the District should be able to close its books, without a deficit, until fiscal year 2010. However, in the next biennium budget changes could occur that would change the forecast positively or negatively. In addition, if any more unfunded state mandates are required, this would impact the District negatively.

School funding is still a major concern for all school districts. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system. They deemed this system to be neither "adequate" nor "equitable." The Court still has not accepted any state developed school-funding plan. Therefore, the District is unable to determine what effect, if any, that a state approved plan will have on the District.

The Ohio School Facilities Commission (OSFC) sent a team into the District to evaluate the District's school buildings in 2002. It was determined that all the buildings needed replaced. The District began working with the OSFC and was approved, as an exceptional needs District. The District would have been required to provide approximately 35% while the state would provide approximately 65% of the funds needed to replace the District's buildings. However, the District was not successful on its attempt at the ballot, November 2003, to get a bond levy passed for the District's share. They once again began working with the OSFC and developed a plan that combined three programs for funding. This time an income tax was then placed on the ballot in March of 2004 to fund the district's portion of the project. However, it was not successful. The focus of the Board of Education had to switch to getting the permanent improvement levy renewed. Since they were successful in renewing the permanent improvement levy during fiscal year 2005, the Board and Administration once again began working with the OSFC. The District was approved in 2006 to enter into the building project under the Classroom Facilities Assistance Program (CFAP). This time the state will fund 75% while the District will need to pass an issue to fund 25% of the project. The District hopes to be successful in November of 2006.

Therefore, it will be necessary for the Board of Education and Administration to continue to carefully and prudently manage the District's resources in order to continue to meet the growing needs of its students.

Contacting the District's Financial Management

This financial report is designed to provide our citizens taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Roxane Harding, Treasurer, Harrison Hills City School District, P.O. Box 356 - Normal Street, Hopedale, Ohio 43976-0356.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,929,547
Cash with fiscal agent	1,556,926
Investments	2,316,166
Receivables:	
Taxes	4,615,334
Accounts	1,181
Intergovernmental	289,750
Accrued interest	17,878
Prepayments	91,972
Materials and supplies inventory	140,470
Capital assets:	
Land	10,561
Construction in progress	43,430
Depreciable capital assets, net	3,442,420
Capital assets, net.	<u>3,496,411</u>
 Total assets.	 <u>17,455,635</u>
Liabilities:	
Accounts payable.	272,957
Accrued wages and benefits	1,270,472
Pension obligation payable.	338,410
Intergovernmental payable	158,511
Deferred revenue	3,400,245
Claims payable	307,969
Long-term liabilities:	
Due within one year.	154,817
Due within more than one year	1,053,312
 Total liabilities	 <u>6,956,693</u>
Net Assets:	
Invested in capital assets, net of related debt.	3,346,941
Restricted for:	
Capital projects	1,041,870
Endowment:	
Expendable	93,092
Nonexpendable	289,934
Federally funded programs	52,832
State funded programs	12,738
Other purposes	1,762,980
Unrestricted.	<u>3,898,555</u>
 Total net assets	 <u>\$ 10,498,942</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
Governmental activities:						
Instruction:						
Regular	\$ 7,015,281	\$ 41,697	\$ 684,866	\$ -	\$	(6,288,718)
Special	2,021,300	-	599,062	-	-	(1,422,238)
Vocational	310,688	-	-	-	-	(310,688)
Other	105,890	-	-	-	-	(105,890)
Support services:						
Pupil	840,241	-	289,902	-	-	(550,339)
Instructional staff	476,080	-	141,762	-	-	(334,318)
Board of education	135,382	-	-	-	-	(135,382)
Administration	1,421,936	-	109,103	-	-	(1,312,833)
Fiscal	490,890	-	-	-	-	(490,890)
Operations and maintenance	1,312,676	-	-	-	-	(1,312,676)
Pupil transportation	1,374,676	-	25,219	-	-	(1,349,457)
Central	188,590	-	10,234	19,968	-	(158,388)
Operation of non-instructional services:						
Food service operations	835,140	333,989	469,840	-	-	(31,311)
Other non-instructional services	60,418	-	-	-	-	(60,418)
Extracurricular activities	330,072	163,644	-	-	-	(166,428)
Interest and fiscal charges	8,126	-	-	-	-	(8,126)
Total governmental activities	<u>\$ 16,927,386</u>	<u>\$ 539,330</u>	<u>\$ 2,329,988</u>	<u>\$ 19,968</u>		<u>(14,038,100)</u>
General Revenues:						
Property taxes levied for:						
General purposes					4,117,746	
Capital projects					391,437	
Grants and entitlements not restricted to specific programs						
Investment earnings					9,648,944	
Miscellaneous					309,014	
					59,747	
Total general revenues					14,526,888	
Change in net assets					488,788	
Net assets at beginning of year (restated)					10,010,154	
Net assets at end of year					\$ 10,498,942	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,130,938	\$ 659,402	\$ 378,434	\$ 3,168,774
Investments.	1,735,055	335,354	245,757	2,316,166
Receivables:				
Taxes.	4,209,942	405,392	-	4,615,334
Accounts	-	-	1,181	1,181
Intergovernmental	-	-	289,750	289,750
Accrued interest.	11,847	2,481	3,550	17,878
Interfund loans	36,625	-	-	36,625
Prepayments	91,950	-	22	91,972
Materials and supplies inventory	131,574	-	8,896	140,470
Restricted assets:				
Equity in pooled cash and cash equivalents	<u>1,760,773</u>	<u>-</u>	<u>-</u>	<u>1,760,773</u>
Total assets	<u>\$ 10,108,704</u>	<u>\$ 1,402,629</u>	<u>\$ 927,590</u>	<u>\$ 12,438,923</u>
Liabilities:				
Accounts payable	\$ 197,903	\$ 27,850	\$ 47,204	\$ 272,957
Accrued wages and benefits	1,043,275	-	227,197	1,270,472
Compensated absences payable	59,523	-	-	59,523
Pension obligation payable.	280,070	-	58,340	338,410
Intergovernmental payable.	134,083	-	24,428	158,511
Interfund loan payable	-	-	36,625	36,625
Deferred revenue.	<u>3,765,887</u>	<u>405,935</u>	<u>113,697</u>	<u>4,285,519</u>
Total liabilities	<u>5,480,741</u>	<u>433,785</u>	<u>507,491</u>	<u>6,422,017</u>
Fund Balances:				
Reserved for encumbrances	149,784	140,164	27,531	317,479
Reserved for materials and supplies inventory.	131,574	-	8,896	140,470
Reserved for prepayments	91,950	-	22	91,972
Reserved for property taxes.	453,755	-	-	453,755
Reserved for BWC refunds	73,694	-	-	73,694
Reserved for capital acquisition.	1,126,259	-	-	1,126,259
Reserved for textbooks.	560,820	-	-	560,820
Reserved for unclaimed monies.	2,207	-	-	2,207
Reserved for endowment	-	-	289,934	289,934
Unreserved, undesignated (deficit) reported in:				
General fund	2,037,920	-	-	2,037,920
Special revenue funds.	-	-	(4,651)	(4,651)
Capital projects funds.	-	828,680	6,091	834,771
Permanent fund.	<u>-</u>	<u>-</u>	<u>92,276</u>	<u>92,276</u>
Total fund balances	<u>4,627,963</u>	<u>968,844</u>	<u>420,099</u>	<u>6,016,906</u>
Total liabilities and fund balances	<u>\$ 10,108,704</u>	<u>\$ 1,402,629</u>	<u>\$ 927,590</u>	<u>\$ 12,438,923</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

Total governmental fund balances		\$ 6,016,906
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,496,411
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	\$ 761,334	
Interest	11,059	
Intergovernmental revenue	112,881	
Total		885,274
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		1,248,957
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	999,136	
Capital lease obligation	149,470	
Total		(1,148,606)
Net assets of governmental activities		\$ 10,498,942

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 4,207,119	\$ 394,598	\$ -	\$ 4,601,717
Charges for services.	-	-	333,989	333,989
Earnings on investments.	236,827	9,557	10,060	256,444
Extracurricular.	11,510	-	157,510	169,020
Classroom materials and fees	20,185	-	21,512	41,697
Other local revenues.	20,163	500	33,708	54,371
Intergovernmental - State	9,608,386	40,558	545,730	10,194,674
Intergovernmental - Federal.	-	-	1,696,697	1,696,697
Total revenue	<u>14,104,190</u>	<u>445,213</u>	<u>2,799,206</u>	<u>17,348,609</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,286,219	5,515	681,444	6,973,178
Special.	1,364,918	-	598,468	1,963,386
Vocational.	298,634	-	-	298,634
Other	79,021	-	26,869	105,890
Support services:				
Pupil.	553,090	-	288,911	842,001
Instructional staff	331,959	-	144,120	476,079
Board of education	135,382	-	-	135,382
Administration.	1,249,142	-	122,522	1,371,664
Fiscal	472,238	30,323	-	502,561
Operations and maintenance.	1,124,188	12,945	-	1,137,133
Pupil transportation	1,268,968	142,120	25,264	1,436,352
Central.	184,974	-	27,328	212,302
Operation of non-instructional services:				
Food service operations	-	-	801,892	801,892
Other non-instructional services	35,968	2,382	23,049	61,399
Extracurricular activities.	136,257	-	188,273	324,530
Facilities acquisition and construction	71,833	174,937	41	246,811
Debt service:				
Principal retirement	44,548	-	-	44,548
Interest and fiscal charges	8,126	-	-	8,126
Total expenditures	<u>13,645,465</u>	<u>368,222</u>	<u>2,928,181</u>	<u>16,941,868</u>
Net change in fund balances	458,725	76,991	(128,975)	406,741
Fund balances at beginning of year	4,197,693	891,853	557,977	5,647,523
Decrease in reserve for inventory	(28,455)	-	(8,903)	(37,358)
Fund balances at end of year.	<u>\$ 4,627,963</u>	<u>\$ 968,844</u>	<u>\$ 420,099</u>	<u>\$ 6,016,906</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

Net change in fund balances - total governmental funds \$ 406,741

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

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

Capital asset additions	\$	294,145	
Current year depreciation		(275,565)	
Total			18,580

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (37,358)

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

Taxes		(92,534)	
Interest		4,394	
Intergovernmental		107,529	
Total			19,389

Repayment of capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 44,548

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 201,449

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (164,561)

Change in net assets of governmental activities \$ 488,788

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,236,740	\$ 4,313,599	\$ 4,314,105	\$ 506
Earnings on investments	240,982	245,282	245,382	100
Extracurricular	11,304	11,500	11,510	10
Classroom materials and fees	19,823	20,000	20,185	185
Other local revenues	22,720	22,807	23,135	328
Intergovernmental - State	9,436,081	9,608,034	9,608,386	352
Total revenue	<u>13,967,650</u>	<u>14,221,222</u>	<u>14,222,703</u>	<u>1,481</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,039,200	6,649,663	6,484,750	164,913
Special	1,486,951	1,379,271	1,369,830	9,441
Vocational	360,593	344,275	332,190	12,085
Other	83,871	79,870	77,265	2,605
Support services:				
Pupil	635,836	655,939	585,754	70,185
Instructional staff	334,966	315,974	308,582	7,392
Board of education	154,920	176,734	142,718	34,016
Administration	1,396,118	1,329,701	1,286,151	43,550
Fiscal	515,090	492,515	474,518	17,997
Operations and maintenance	1,321,801	1,349,588	1,217,688	131,900
Pupil transportation	1,442,501	1,359,116	1,328,881	30,235
Central	197,226	229,159	181,691	47,468
Operation of non-instructional services	40,120	40,631	36,960	3,671
Extracurricular activities	150,000	149,466	138,185	11,281
Facilities acquisition and construction	625,603	987,743	576,327	411,416
Total expenditures	<u>15,784,796</u>	<u>15,539,645</u>	<u>14,541,490</u>	<u>998,155</u>
Excess of revenues over (under) expenditures	<u>(1,817,146)</u>	<u>(1,318,423)</u>	<u>(318,787)</u>	<u>999,636</u>
Other financing sources (uses):				
Transfers in	472,927	481,562	481,562	-
Transfers (out)	(522,736)	(481,562)	(481,562)	-
Advances in	21,443	21,835	21,835	-
Advances (out)	(39,756)	(36,625)	(36,625)	-
Total other financing sources (uses)	<u>(68,122)</u>	<u>(14,790)</u>	<u>(14,790)</u>	<u>-</u>
Net change in fund balance	(1,885,268)	(1,333,213)	(333,577)	999,636
Fund balance at beginning of year	4,589,916	4,589,916	4,589,916	-
Prior year encumbrances appropriated	390,868	390,868	390,868	-
Fund balance at end of year	<u>\$ 3,095,516</u>	<u>\$ 3,647,571</u>	<u>\$ 4,647,207</u>	<u>\$ 999,636</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 1,556,926
Total assets	<u>1,556,926</u>
Liabilities:	
Claims payable	<u>307,969</u>
Total liabilities	<u>307,969</u>
Net assets:	
Unrestricted.	<u>1,248,957</u>
Total net assets	<u><u>\$ 1,248,957</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 2,801,677
Total operating revenues	<u>2,801,677</u>
Operating expenses:	
Fringe benefits	207,163
Claims.	<u>2,807,251</u>
Total operating expenses	<u>3,014,414</u>
Operating loss.	<u>(212,737)</u>
Nonoperating revenues:	
Interest revenue.	<u>48,176</u>
Total nonoperating revenues	<u>48,176</u>
Change in net assets.	(164,561)
Net assets at beginning of year	<u>1,413,518</u>
Net assets at end of year	<u><u>\$ 1,248,957</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 2,801,677
Cash payments for fringe benefits.	(207,163)
Cash payments for claims.	<u>(2,810,242)</u>
Net cash used in operating activities	<u>(215,728)</u>
Cash flows from investing activities:	
Interest received	<u>48,176</u>
Net cash provided by investing activities	<u>48,176</u>
Net decrease in cash and cash equivalents	(167,552)
Cash and cash equivalents at beginning of year. . .	<u>1,724,478</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,556,926</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (212,737)
Changes in assets and liabilities:	
Decrease in claims payable	<u>(2,991)</u>
Net cash used in operating activities	<u><u>\$ (215,728)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 87,047
Total assets	<u>\$ 87,047</u>
Liabilities:	
Accounts payable	\$ 6,995
Due to students	<u>80,052</u>
Total liabilities	<u>\$ 87,047</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Harrison Hills City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in 1971 through the consolidation of existing land areas and school districts. The District serves an area approximately 386 square miles. It is located primarily in Harrison County, however small portions of the District are located in Carroll County, Tuscarawas County, Belmont County, and Jefferson County. The District is the 272nd largest in the State of Ohio (among 615 public school districts) in terms of enrollment. It is staffed by 103 non-certificated employees, 159 certificated employees, and 11 administrators who provide services to 2,045 students and other community members. The District currently operates 8 instructional buildings and 1 administrative building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

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

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

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

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

Belmont Harrison Joint Vocational School

The Belmont Harrison Joint Vocational School 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 nine participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Belmont Harrison Joint Vocational School, Treasurer's Office, at 110 Fox/Shannon Place, St. Clairsville, Ohio 43950.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Permanent Improvement Fund - The Permanent Improvement capital projects fund is used to account for all transactions related to acquiring, constructing, or improving capital facilities.

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

PROPRIETARY FUND

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

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

FIDUCIARY FUND

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

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

E. Budgets

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

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$236,827, which includes \$37,359 assigned from other funds.

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

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

G. Inventory

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)

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

H. Capital Assets

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	20 - 75 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years
Infrastructure	75 years

I. Interfund Balances

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

J. Compensated Absences

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

L. Fund Balance Reserves

The District records reserves for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of materials and supplies, prepayments, tax revenue unavailable for appropriation, Bureau of Workers' Compensation (BWC) refunds, capital acquisition, textbooks, unclaimed monies and endowment. The reserve for property tax advance unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Operating Revenues and Expenses

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

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)

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

N. Net Assets

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

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

O. Prepayments

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

P. Estimates

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

Q. Restricted Assets

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

R. Interfund Activity

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

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

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

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

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

B. Restatement of Net Assets

The beginning net assets of the governmental activities have been restated due errors reported in previous years. The adjustment for capital assets had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets, July 1, 2005	\$ 9,992,158
Adjustment for capital assets	<u>17,996</u>
Restated net assets, July 1, 2005	<u>\$ 10,010,154</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
District Managed Activities	\$ 19,909
EMIS	41
Disadvantaged Pupil Impact Aid	7,373
Title VI-B	1,444
Title I	16,727
Preschool	1,678
Improving Teacher Quality	1,988

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2006 was \$1,556,926.

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,140,371. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$945,515 of the District's bank balance of \$1,662,669 was exposed to custodial risk as discussed below, while \$717,154 was covered by Federal Deposit Insurance Corporation.

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>
STAR Ohio	\$ 3,876,223	\$ 3,876,223	\$ -	\$ -
FHLB	1,335,969	743,920	493,830	98,219
FHLMC	734,477	237,128	497,349	-
FNMA	245,720	148,595	-	97,125
	<u>\$ 6,192,389</u>	<u>\$ 5,005,866</u>	<u>\$ 991,179</u>	<u>\$ 195,344</u>

The weighted average maturity of investments is .36 years.

Interest Rate Risk: To the extent possible, the District will attempt to match its investment with anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to maturity. Unless matched to a specific obligation or debt of the District, the District will not invest in securities maturing more than two years from the date of settlement.

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

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,876,223	62.60
FHLB	1,335,969	21.57
FHLMC	734,477	11.86
FNMA	245,720	3.97
	<u>\$ 6,192,389</u>	<u>100.00</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Assets

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,140,371
Investments	6,192,389
Cash with fiscal agent	1,556,926
Total	<u>\$ 8,889,686</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 8,802,639
Agency fund	87,047
Total	<u>\$ 8,889,686</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 36,625

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

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

NOTE 6 - PROPERTY TAXES

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)

NOTE 6 - PROPERTY TAXES - (Continued)

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

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

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

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

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

The amount available as an advance at June 30, 2006 was \$453,755 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$560,741 in the general fund.

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 147,508,500	82.31	\$ 173,942,850	84.83
Public Utility Personal	16,506,890	9.21	16,619,280	8.10
Tangible Personal Property	<u>15,195,970</u>	<u>8.48</u>	<u>14,506,240</u>	<u>7.07</u>
Total	<u>\$ 179,211,360</u>	<u>100.00</u>	<u>\$ 205,068,370</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$	37.75	\$	37.75

NOTE 7 - RECEIVABLES

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

Governmental Activities:

Taxes	\$ 4,615,334
Accounts	1,181
Intergovernmental	289,750
Accrued interest	<u>17,878</u>
Total	<u>\$ 4,924,143</u>

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the government activities have been restated due to errors reported in previous years (See Note 3.B. for detail).

	Balance <u>06/30/05</u>	<u>Adjustments</u>	Restated Balance <u>07/01/05</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 10,561	\$ -	\$ 10,561
Total capital assets, not being depreciated	<u>10,561</u>	<u>-</u>	<u>10,561</u>
<i>Capital assets, being depreciated:</i>			
Buildings and improvement	8,333,205	-	8,333,205
Furniture and equipment	1,341,214	(669,000)	672,214
Vehicles	1,407,361	(164,993)	1,242,368
Infrastructure	<u>23,230</u>	<u>-</u>	<u>23,230</u>
Total capital assets, being depreciated	<u>11,105,010</u>	<u>(833,993)</u>	<u>10,271,017</u>
<i>Less: accumulated depreciation</i>	<u>(7,655,736)</u>	<u>851,989</u>	<u>(6,803,747)</u>
Governmental activities capital assets, net	<u>\$ 3,459,835</u>	<u>\$ 17,996</u>	<u>\$ 3,477,831</u>

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

	Restated Balance <u>07/01/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
Construction in Progress	<u>-</u>	<u>43,430</u>	<u>-</u>	<u>43,430</u>
Total capital assets, not being depreciated	<u>10,561</u>	<u>43,430</u>	<u>-</u>	<u>53,991</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	8,333,205	-	-	8,333,205
Furniture and equipment	672,214	42,860	-	715,074
Vehicles	1,242,368	207,855	(89,769)	1,360,454
Infrastructure	<u>23,230</u>	<u>-</u>	<u>-</u>	<u>23,230</u>
Total capital assets, being depreciated	<u>10,271,017</u>	<u>250,715</u>	<u>(89,769)</u>	<u>10,431,963</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(5,804,501)	(110,831)	-	(5,915,332)
Furniture and equipment	(282,784)	(57,013)	-	(339,797)
Vehicles	(702,833)	(107,411)	89,769	(720,475)
Infrastructure	<u>(13,629)</u>	<u>(310)</u>	<u>-</u>	<u>(13,939)</u>
Total accumulated depreciation	<u>(6,803,747)</u>	<u>(275,565)</u>	<u>89,769</u>	<u>(6,989,543)</u>
Governmental activities capital assets, net	<u>\$ 3,477,831</u>	<u>\$ 18,580</u>	<u>\$ -</u>	<u>\$ 3,496,411</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 78,082
Special	31,590
Vocational	3,424
 <u>Support Services:</u>	
Pupil	1,161
Instructional staff	2,273
Administration	16,740
Fiscal	3,005
Operations and maintenance	3,461
Pupil transportation	111,719
Central	8,334
Extracurricular activities	5,542
Food service operations	<u>10,234</u>
 Total depreciation expense	 <u><u>\$ 275,565</u></u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the District entered into capitalized leases for phone equipment, copier equipment and a modular classroom. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of buildings and improvements and furniture and equipment have been capitalized in the amount of \$311,958. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$105,174, leaving a current book value of \$206,784. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$44,548 paid by the general fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 52,674
2008	50,994
2009	42,594
2010	<u>14,198</u>
Total minimum lease payments	160,460
Less amount representing interest	<u>(10,990)</u>
Total	<u><u>\$ 149,470</u></u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Capital lease obligation	\$ 194,018	\$ -	\$ (44,548)	\$ 149,470	\$ 46,806
Compensated absences	<u>1,250,706</u>	<u>-</u>	<u>(192,047)</u>	<u>1,058,659</u>	<u>108,011</u>
Total long-term obligations, governmental activities	<u>\$ 1,444,724</u>	<u>\$ -</u>	<u>\$ (236,595)</u>	<u>\$ 1,208,129</u>	<u>\$ 154,817</u>

B. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$18,456,153 and an unvoted debt margin of \$205,068.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees, office staff, administrative staff, and certified employees have the following sick leave and severance policies:

<u>Employee Status</u>	<u>Maximum Allowable Sick Leave Balance (Days)</u>	<u>Paid at 1/4 of Unused Sick Leave Balance</u>	<u>Paid at 1/8 of Unused Sick Leave Balance</u>	<u>Total Allowable Maximum Severance (Days)</u>
Classified	279	First 133 Days	Any Balance Over 133 Days	52
Office Staff	314	First 142 Days	Any Balance Over 142 Days	51
Administrative	325	First 160 Days	Any Balance Over 160 Days	61
Certified	325	First 144 Days	Any Balance Over 144 Days	59

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 11 - EMPLOYEE BENEFITS – (Continued)

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has contracted with Indiana Insurance for property and inland marine coverage. The District contracted with Indiana Insurance for their fleet insurance. For professional liability coverage, the District contracted with Ohio School Plan via Harcum-Hyre Insurance Agency. Coverage provided by Indiana Insurance Company is as follows:

<u>Description</u>	<u>Amount</u>
Building and Contents - replacement cost (\$5,000 deductible)	\$39,406,500
Inland Marine Coverage (\$500 deductible)	399,930
Boiler and Machinery (\$5,000 deductible)	39,406,500
Crime Insurance	10,000
Musical Instruments	314,430

Coverage provided by Indiana Insurance is as follows:

General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Workers' Compensation

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

The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participants individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Employee Group Medical, Dental, Vision and Life Insurance

Medical/surgical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 49 school districts within the OME-RESA consortium, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf. The claims liability of \$307,969 reported in the internal service fund at June 30, 2006, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 310,960	\$ 2,807,251	\$ (2,810,242)	\$ 307,969
2005	331,727	2,383,813	(2,404,580)	310,960

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$199,889, \$252,283 and \$233,833, respectively; 49.72% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$100,498 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$948,936, \$1,006,424 and \$959,625, respectively; 83.60% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$155,621 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$4,143 made by the District and \$6,671 made by plan members.

C. Social Security System

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$72,995 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the District paid \$91,593 to fund health care benefits, including the surcharge.

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (333,577)
Net adjustment for revenue accruals	(118,513)
Net adjustment for expenditure accruals	(91,598)
Net adjustment for other sources/uses	14,790
Adjustment for encumbrances	987,623
GAAP basis	\$ 458,725

NOTE 16 - CONTINGENCIES

A. Grants

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 16 – CONTINGENCIES – (Continued)

B. Litigation

The District is not a party to legal proceedings at June 30, 2006.

NOTE 17 - STATUTORY RESERVES

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2005	\$ 420,358	\$ 916,923	\$ 73,694
Current year set-aside requirement	282,832	282,832	-
Qualifying disbursements	<u>(142,370)</u>	<u>(73,496)</u>	<u>-</u>
 Total	 <u>\$ 560,820</u>	 <u>\$ 1,126,259</u>	 <u>\$ 73,694</u>
 Cash balance carried forward to FY 2007	 <u>\$ 560,820</u>	 <u>\$ 1,126,259</u>	 <u>\$ 73,694</u>
 A schedule of the restricted assets at June 30, 2006 follows:			
Amount restricted for BWC refunds	\$ 73,694		
Amount restricted for textbooks	560,820		
Amount restricted for capital acquisition	<u>1,126,259</u>		
 Total restricted assets	 <u>\$ 1,760,773</u>		

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2006, the District had the following contractual commitments outstanding related to the replacement of a roof. A summary of the primary contractual commitments follows:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid Through June 30, 2006</u>	<u>Remaining Contract Amount</u>
S.A.M.C.O. Builders LTD	\$ 488,115	\$ -	\$ 488,115

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	03-PU-06	10.550		\$16,990		\$16,990
Nutrition Cluster:						
National School Lunch Program	04-PU-06	10.555	\$298,781		\$298,781	
National School Breakfast Program	05-PU-06	10.553	127,986		127,986	
Total Nutrition Cluster			426,767		426,767	
Total U.S. Department of Agriculture			426,767	16,990	426,767	16,990
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States Title VI-B Flow Through	6B-SF-05 6B-SF-06	84.027	84,476 574,632		107,735 554,650	
Total Title VI-B			659,108		662,385	
Special Education - Preschool Grant	PG-S1-05 PG-S1-06	84.173	0 23,923		2,552 24,948	
Total Special Education - Preschool Grant			23,923		27,500	
Total Special Education Cluster			683,031		689,885	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-05 C1-S1-06	84.010	131,892 486,914		145,478 472,868	
Total Title I			618,806		618,346	
Inovative Education Strategies	C2-S1-05 C2-S1-06	84.298	0 7,214		1,337 6,118	
Total Inovative Education Strategies			7,214		7,455	
Drug-Free Schools Grant	DR-S1-05 DR-S1-06	84.186	0 19,020		3,587 19,020	
Total Drug Free Schools Grant			19,020		22,607	
Title II A - Improving Teacher Quality	TR-S1-05 TR-S1-06	84.367	5,328 131,787		14,294 129,152	
Total Title II A			137,115		143,446	
Title II D - Eduation Technology State Grants	TJ-S1-05 TJ-S1-06	84.318	77 9,766		3,291 10,610	
Total Title II D			9,843		13,901	
Total Department of Education			1,475,029		1,495,640	
U.S. Department of Health and Human Services						
<i>Passed Through Ohio Department of MRDD:</i>						
Community Alternative Funding System (CAFS)	FY 06	93.778	12,927		12,927	
Total Department of Health and Human Services			12,927		12,927	
Total Federal Financial Assistance			<u>\$1,914,723</u>	<u>\$16,990</u>	<u>\$1,935,334</u>	<u>\$16,990</u>

The notes to the Federal Awards Expenditures Schedule are an integral part of this schedule.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
JUNE 30, 2006**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Expenditure Awards (the Schedule) summarizes activity of the District's Federal Award Programs. The Schedule has been prepared using the cash basis of accounting.

2. CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

3. FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.



Mary Taylor, CPA

Auditor of State

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

Harrison Hills City School District
Harrison County
P.O. Box 356
422 Normal Street
Hopedale, Ohio 43976

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 the Harrison Hills City School District, Harrison County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements have issued our report thereon dated July 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated July 11, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the District's management dated July 11, 2007, we reported other matters related to noncompliance we deemed immaterial.

Harrison Hills City School District
Harrison County
Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other
Matters Required by *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

July 11, 2007



Mary Taylor, CPA

Auditor of State

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

Harrison Hills City School District
Harrison County
P.O. Box 356
422 Normal Street
Hopedale, Ohio 43976

To the Board of Education:

Compliance

We have audited the compliance of the Harrison Hills City School District, Harrison 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 apply to each of its major federal programs for the year ended June 30, 2006. 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 express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of 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 those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Harrison Hills City School District, Harrison County, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated July 11, 2007.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

July 11, 2007

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster:: CFDA #'s 84.027 and 84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

2006-001	
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Finding for Recovery – Overpayment of Compensation

The negotiated agreement between the Harrison Hills City School District and the Teachers Association details salary schedules based on years of service and education credits. Teacher Louann Demas was compensated at the incorrect level of education for the 2005-06 school year. The error was noted and Ms. Demas repaid the overpayment for the 2005-06 contract year. However, the same error was made on the 2004-05 salary notice and resulted in overpayments for that school year as well. A recap of the overpayment made during the audit period for the prior contract is as follows:

Pay Period	Bi-Weekly Payment Due Per Negotiated Agreement	Actual Bi-Weekly Payment	Overpayment
7/8/2005	\$1,173.00	\$1,273.04	\$100.04
7/22/2005	\$1,173.00	\$1,273.04	\$100.04
8/5/2005	\$1,173.00	\$1,273.04	\$100.04
8/19/2005	\$1,173.00	\$1,273.00	\$100.00
Total			\$400.12

In accordance with the foregoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Treasurer Roxanne Harding, Old Republic Surety Company, her bonding company and teacher Louann Demas, jointly and severally, in the amount of \$400.12 and in favor of the General Fund of the Harrison Hills City School District.

Officials' Response

The District received a check in the amount of \$400.12 from Louann Demas on August 22, 2007. The finding for recovery has been repaid in full.

3. FINDINGS FOR FEDERAL AWARDS

None	
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Mary Taylor, CPA
Auditor of State

HARRISON HILLS CITY SCHOOL DISTRICT

HARRISON 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
OCTOBER 18, 2007**