

Hillsboro City School District

Highland County, Ohio

Single Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, INC.

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Mary Taylor, CPA
Auditor of State

Board of Education
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

We have reviewed the *Independent Auditor's Report* of the Hillsboro City School District, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hillsboro City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 16, 2007

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Hillsboro City School District
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

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

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

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 the District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof 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 February 28, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 10 and 46 through 48 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board
Hillsboro City School District
Independent Auditor's Report
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 19, the District implemented Governmental Accounting Standards Board (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*.



Balestra, Harr & Scherer, CPAs, Inc.
February 28, 2007

HILLSBORO CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The discussion and analysis of Hillsboro City School District's 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 notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets increased \$5,476,312 represents a 60% increase from 2005.
- General revenues accounted for \$24,086,828 in revenue or 80% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,032,946 or 20% of total revenues of \$30,119,774.
- The District had \$24,643,462 in expenses related to governmental activities; \$6,032,946 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$24,086,828 were also used to provide for these programs.

OVERVIEW OF THE 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. The General Fund, Debt Service Fund and Classroom Facilities Fund are the major funds of the District.

Government-wide Financial Statements

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 questions, “How did we do financially during 2006?” The Government-wide Financial Statements answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes 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 has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. 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 Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- **Governmental Activities** – Most of the District’s programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Fund Financial Statements

The analysis of the District’s major funds are presented in the Fund Financial Statements. Fund financial statements 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.

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* that can readily be converted to cash. The governmental fund 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 financial statements.

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

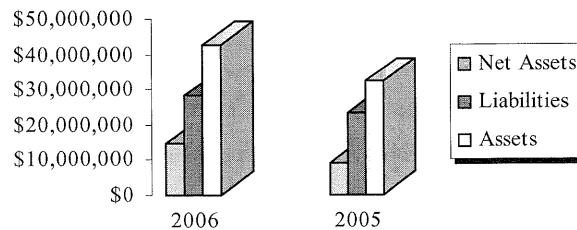
The District as a Whole

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

Table 1 provides a summary of the District's net assets for 2006 compared to 2005:

Table 1
Net Assets

	Governmental Activities	
	2006	2005 Restated
Assets		
Current Assets	\$21,721,444	\$11,796,425
Capital Assets	21,124,607	20,654,337
Total Assets	42,846,051	32,450,762
Liabilities		
Long-Term Liabilities	13,539,066	10,580,607
Other Liabilities	14,648,638	12,688,120
Total Liabilities	28,187,704	23,268,727
Net Assets		
Invested in Capital		
Assets Net of Debt	8,487,292	7,722,230
Restricted	7,079,662	2,705,646
Unrestricted	(908,607)	(1,245,841)
Total Net Assets	\$14,658,347	\$9,182,035



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 \$14,658,347.

At year-end, capital assets represented 49% of total assets. Capital assets include land, construction in progress, buildings and improvements and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2006, was \$8,487,292. 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, \$7,079,662, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets increased from the prior year mainly because the District received approximately \$4 million in state monies from the Ohio School Facilities Commission for school improvements and due to an increase in taxes receivables owed to the District at year end compared to 2005. Long-term liabilities increased due to the issuance of \$3.25 million in School Improvement Bonds. Other liabilities increased due to an increase in unearned revenue which was largely due to an increase in taxes receivable.

Table 2 shows the change in net assets for fiscal year 2006.

Table 2
Changes in Net Assets

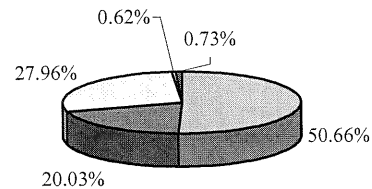
	Governmental Activities	
	2006	2005 Restated
Revenues		
Program Revenues:		
Charges for Services	\$1,512,592	\$1,263,896
Operating Grants	4,474,227	4,369,124
Capital Grants	46,127	36,241
General Revenue:		
Income Taxes	2,260,865	2,124,949
Property Taxes	6,160,234	6,043,740
Grants and Entitlements	15,257,721	9,587,915
Other	408,008	302,765
Total Revenues	<u>30,119,774</u>	<u>23,728,630</u>
Program Expenses:		
Instruction	13,517,075	13,258,225
Support Services:		
Pupil and Instructional Staff	2,641,355	2,997,775
General and School Administrative, and Fiscal	2,814,327	2,711,544
Operations and Maintenance	1,858,348	1,980,704
Pupil Transportation	1,513,206	1,632,803
Central	17,078	24,869
Operation of Non-Instructional Services	1,197,441	1,213,692
Extracurricular Activities	577,816	442,318
Interest and Fiscal Charges	506,816	554,907
Total Expenses	<u>24,643,462</u>	<u>24,816,837</u>
Change in Net Assets	5,476,312	(1,088,207)
Beginning Net Assets	<u>9,182,035</u>	<u>10,270,242</u>
Ending Net Assets	<u>\$14,658,347</u>	<u>\$9,182,035</u>

The District revenues are mainly from two sources. Property taxes levied for general, special revenue and debt service purposes and grants and entitlements comprised 71% of the District's revenues for governmental activities.

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

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 20% of revenue for governmental activities for the District in fiscal year 2006.

<u>Revenue Sources</u>	<u>2006</u>	<u>Percent of Total</u>
General Grants	\$15,257,721	50.66%
Program Revenues	6,032,946	20.03%
General Tax Revenues	8,421,099	27.96%
Investment Earnings	185,715	0.62%
Other Revenues	222,293	0.73%
	<u>\$30,119,774</u>	<u>100.00%</u>



Instruction comprises 55% of governmental program expenses. Support services expenses were 36% of governmental program expenses. All other expenses and interest expense was 9%. Interest expense was attributable to the outstanding bonds, leases, and borrowing for capital projects.

Operating Grants increased mainly due to an increase in grant monies (intergovernmental revenue) received in 2006 compared to 2005. This is mainly due to additional state monies received from the Ohio School Facilities Commission for school improvements. Total expenses remained relatively consistent in 2006 compared to 2005.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government 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 entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005 Restated	2006	2005 Restated
Instruction	\$13,517,075	\$13,258,225	(\$10,670,053)	(\$9,605,143)
Support Services:				
Pupil and Instructional Staff	2,641,355	2,997,775	(1,339,717)	(2,413,702)
General and School Administrative, and Fiscal	2,814,327	2,711,544	(2,554,936)	(2,610,022)
Operations and Maintenance	1,858,348	1,980,704	(1,808,238)	(1,928,576)
Pupil Transportation	1,513,206	1,632,803	(1,471,938)	(1,594,200)
Central	17,078	24,869	(1,490)	1,346
Operation of Non-Instructional Services	1,197,441	1,213,692	86,497	(197,255)
Extracurricular Activities	577,816	442,318	(360,261)	(245,117)
Interest and Fiscal Charges	506,816	554,907	(490,380)	(554,907)
Total Expenses	<u>\$24,643,462</u>	<u>\$24,816,837</u>	<u>(\$18,610,516)</u>	<u>(\$19,147,576)</u>

The District's Funds

The District has three major governmental funds: the General Fund, Debt Service Fund and Classroom Facilities Fund. Assets of the general fund comprised \$9,452,229 (43%), the debt service fund comprised \$5,055,086 (23%) and the classroom facilities fund comprised \$4,619,796 (21%) of the total \$21,923,341 governmental funds assets.

General Fund: Fund balance at June 30, 2006 was (\$334,280) an increase in fund balance of \$820,889 from 2005. The increase in fund balance was mainly due to the increase in intergovernmental revenue.

Debt Service Fund: Fund balance at June 30, 2006 was \$799,270 an increase of \$3,429,938 from 2005. The increase in fund balance was mainly due to the issuance of \$3.25 million in school improvement bonds.

Classroom Facilities Fund: Fund balance at June 30, 2006 was \$4,141,773. Intergovernmental revenues for school improvements were the main reason for the fund balance.

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.

The District amended its general fund budget once at the fiscal year end. The District revised the Budget to deal with unexpected changes in revenues and expenditures.

For the General Fund, original estimated revenue was \$18,679,383. The final estimated revenue was \$19,881,023. The difference was due to an increase in expected intergovernmental revenue.

The District's ending unobligated cash balance was \$211,482 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$21,124,607 invested in land, construction in progress, buildings and improvements, and equipment. Table 4 shows fiscal 2006 balances compared to fiscal 2005:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2006	2005 Restated
Land	\$1,522,499	\$1,522,499
Construction in Progress	15,043,521	14,404,179
Buildings and Improvements	2,984,017	3,080,398
Equipment	1,574,570	1,647,261
Total Net Capital Assets	<u>\$21,124,607</u>	<u>\$20,654,337</u>

The increase in capital assets is mainly due to \$835,199 in construction in progress additions and equipment additions, offset by the recognition of \$364,929 in depreciation.

See Note 6 to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2006, the District had \$12,425,000 in bonds payable, \$285,000 due within one year. Table 5 summarizes outstanding debt at year end.

Table 5
Outstanding Debt, at Year End

	Governmental Activities 2006	Governmental Activities 2005
Bonds Payable:		
School Improvement Bonds	<u>\$12,425,000</u>	<u>\$9,405,000</u>
Total Outstanding Debt at Year End	<u>\$12,425,000</u>	<u>\$9,405,000</u>

See Note 8 to the basic financial statements for further details on the District's long-term obligations.

For the Future

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone, and telecommunications companies, and railroads. The tax on general business and railroad property began being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunication property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are being reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

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 Jeff Anderson, Treasurer at Hillsboro City School District, 338 West Main Street, Hillsboro, Ohio 45133.

Hillsboro City School District
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$10,778,680
Restricted Cash and Investments	75,952
Receivables:	
Taxes	9,900,423
Accounts	21,801
Interest	28,262
Intergovernmental	913,679
Inventory	2,647
Nondepreciable Capital Assets	16,566,020
Depreciable Capital Assets, Net	<u>4,558,587</u>
 Total Assets	 <u>42,846,051</u>
Liabilities:	
Accounts Payable	39,399
Accrued Wages and Benefits	2,186,313
Accrued Interest Payable	84,400
Unearned Revenue	8,589,956
Claims Payable	20,547
Contracts Payable	478,023
General Obligation Notes Payable	3,250,000
Long-Term Liabilities:	
Due Within One Year	518,223
Due In More Than One Year	<u>13,020,843</u>
 Total Liabilities	 <u>28,187,704</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	8,487,292
Restricted for:	
Special Revenue	1,351,639
Debt Service	760,171
Capital Projects	4,891,900
Set-Aside	75,952
Unrestricted	<u>(908,607)</u>
 Total Net Assets	 <u>\$14,658,347</u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction:					
Regular	\$9,287,331	\$557,188	\$330,538	\$28,800	(\$8,370,805)
Special	2,338,404	8,813	1,645,785	0	(683,806)
Vocational	733,084	0	136,359	0	(596,725)
Other	1,158,256	3,377	136,162	0	(1,018,717)
Support Services:					
Pupil	919,770	75,788	16,775	0	(827,207)
Instructional Staff	1,721,585	36,526	1,172,549	0	(512,510)
General Administration	20,313	0	0	0	(20,313)
School Administration	2,311,538	99,851	150,481	0	(2,061,206)
Fiscal	482,476	0	9,059	0	(473,417)
Operations and Maintenance	1,858,348	4,078	46,032	0	(1,808,238)
Pupil Transportation	1,513,206	0	23,941	17,327	(1,471,938)
Central	17,078	0	15,588	0	(1,490)
Operation of Non-Instructional Services	1,197,441	509,416	774,522	0	86,497
Extracurricular Activities	577,816	217,555	0	0	(360,261)
Interest and Fiscal Charges	506,816	0	16,436	0	(490,380)
Total Governmental Activities	<u>\$24,643,462</u>	<u>\$1,512,592</u>	<u>\$4,474,227</u>	<u>\$46,127</u>	<u>(18,610,516)</u>

General Revenues:	
Income Taxes	2,260,865
Property Taxes Levied for:	
General Purposes	5,120,642
Special Revenue Purposes	112,037
Debt Service Purposes	927,555
Grants and Entitlements not Restricted to Specific Programs	15,257,721
Unrestricted Contributions	4,846
Investment Earnings	185,715
Other Revenues	217,447
Total General Revenues	<u>24,086,828</u>
Change in Net Assets	5,476,312
Net Assets Beginning of Year, Restated	<u>9,182,035</u>
Net Assets End of Year	<u>\$14,658,347</u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Balance Sheet
Governmental Funds
June 30, 2006

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$401,547	\$4,023,601	\$4,606,480	\$1,747,052	\$10,778,680
Restricted Cash and Investments	75,952	0	0	0	75,952
Receivables:					
Taxes	8,745,261	1,031,485	0	123,677	9,900,423
Accounts	21,801	0	0	0	21,801
Interest	13,357	0	13,316	1,589	28,262
Intergovernmental	0	0	0	913,679	913,679
Interfund	194,311	0	0	7,586	201,897
Inventory	0	0	0	2,647	2,647
Total Assets	9,452,229	5,055,086	4,619,796	2,796,230	21,923,341
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	27,466	0	0	11,933	39,399
Accrued Wages and Benefits	1,886,248	0	0	300,065	2,186,313
Compensated Absences	110,351	0	0	5,644	115,995
Interfund Payable	0	0	0	201,897	201,897
Deferred Revenue	7,762,444	1,005,816	0	595,263	9,363,523
Contracts Payable	0	0	478,023	0	478,023
General Obligation Notes Payable	0	3,250,000	0	0	3,250,000
Total Liabilities	9,786,509	4,255,816	478,023	1,114,802	15,635,150
Fund Balances:					
Reserved for Encumbrances	158,977	0	2,000,255	66,548	2,225,780
Reserved for Inventory	0	0	0	2,647	2,647
Reserved for Property Tax Advances	135,414	25,669	0	3,145	164,228
Reserved for Set-Aside	75,952	0	0	0	75,952
Unreserved, Undesignated, Reported in:					
General Fund	(704,623)	0	0	0	(704,623)
Special Revenue Funds	0	0	0	888,528	888,528
Debt Service Funds	0	773,601	0	0	773,601
Capital Projects Funds	0	0	2,141,518	720,560	2,862,078
Total Fund Balances	(334,280)	799,270	4,141,773	1,681,428	6,288,191
Total Liabilities and Fund Balances	\$9,452,229	\$5,055,086	\$4,619,796	\$2,796,230	\$21,923,341

See accompanying notes to the basic financial statements.

Hillsboro City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2006

Total Governmental Fund Balance \$6,288,191

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 21,124,607

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds.

Delinquent Property Taxes	298,836	
Intergovernmental	<u>474,731</u>	
		773,567

An internal service fund is used by management to charge
 back costs to individual funds. The assets and
 liabilities of the internal service fund are included in
 governmental activities in the statement of net assets. (20,547)

In the statement of net assets interest payable is accrued when
 incurred, whereas in the governmental funds interest is
 reported as a liability only when it will require the use of
 current financial resources. (84,400)

Some liabilities reported in the statement of net assets do not
 require the use of current financial resources and therefore
 are not reported as liabilities in governmental funds.

Compensated Absences	<u>(785,756)</u>	
		(785,756)

Long-term liabilities, are not due and payable in the current
 period and therefore are not reported in the funds. (12,637,315)

Net Assets of Governmental Activities \$14,658,347

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$7,371,592	\$924,217	\$0	\$111,603	\$8,407,412
Tuition and Fees	474,530	0	0	8,073	482,603
Investment Earnings	102,757	0	33,204	49,754	185,715
Intergovernmental	12,182,597	0	4,084,394	3,048,885	19,315,876
Extracurricular Activities	0	0	0	418,563	418,563
Charges for Services	0	0	0	509,416	509,416
Other Revenues	205,970	0	0	100,792	306,762
Total Revenues	20,337,446	924,217	4,117,598	4,247,086	29,626,347
Expenditures:					
Current:					
Instruction:					
Regular	8,672,557	0	0	475,141	9,147,698
Special	1,279,931	0	0	1,098,645	2,378,576
Vocational	691,033	0	0	2,139	693,172
Other	1,158,256	0	0	0	1,158,256
Support Services:					
Pupil	883,009	0	0	38,557	921,566
Instructional Staff	994,110	0	0	700,535	1,694,645
General Administration	20,313	0	0	0	20,313
School Administration	2,200,122	0	0	103,241	2,303,363
Fiscal	489,464	22,226	0	6,766	518,456
Operations and Maintenance	1,803,059	0	0	69,484	1,872,543
Pupil Transportation	1,514,526	0	0	18,561	1,533,087
Central	4,462	0	0	12,616	17,078
Operation of Non-Instructional Services	59,824	0	0	1,137,582	1,197,406
Extracurricular Activities	247,761	0	0	323,241	571,002
Capital Outlay	12,989	0	539,906	86,447	639,342
Debt Service:					
Principal Retirement	0	230,000	0	64,792	294,792
Interest and Fiscal Charges	0	492,053	0	11,410	503,463
Total Expenditures	20,031,416	744,279	539,906	4,149,157	25,464,758
Excess of Revenues Over (Under) Expenditures	306,030	179,938	3,577,692	97,929	4,161,589
Other Financing Sources (Uses):					
Proceeds from Sale of Assets	17,541	0	0	0	17,541
Proceeds of Long-Term Capital-Related Debt	0	3,250,000	0	0	3,250,000
Transfers In	497,318	0	564,081	34,541	1,095,940
Transfers (Out)	0	0	0	(1,095,940)	(1,095,940)
Total Other Financing Sources (Uses)	514,859	3,250,000	564,081	(1,061,399)	3,267,541
Net Change in Fund Balance	820,889	3,429,938	4,141,773	(963,470)	7,429,130
Fund Balance Beginning of Year	(1,155,169)	(2,630,668)	0	2,644,898	(1,140,939)
Fund Balance End of Year	(\$334,280)	\$799,270	\$4,141,773	\$1,681,428	\$6,288,191

See accompanying notes to the basic financial statements.

Hillsboro City School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balance - Total Governmental Funds \$7,429,130

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

Governmental funds report capital asset additions 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 of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	835,199	
Depreciation Expense	<u>(364,929)</u>	
		470,270

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

Delinquent Property Taxes	13,688	
Intergovernmental	<u>462,198</u>	
		475,886

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 294,792

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. (3,353)

Some expenses reported in the statement of activities do not require the
 use of current financial resources and therefore are not reported as
 expenditures in governmental funds.

Compensated Absences	<u>50,011</u>	
		50,011

The internal service fund used by management to charge back costs
 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. 9,576

Proceeds from debt issues are an other financing source in the funds,
 but a debt issue increases long-term liabilities in the statement
 of net assets. (3,250,000)

Change in Net Assets of Governmental Activities \$5,476,312

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Net Assets
Proprietary Fund
June 30, 2006

	Governmental Activities- Internal Service Fund
Assets:	
Equity in Pooled Cash and Investments	\$0
Total Current Assets	0
Liabilities:	
Current Liabilities:	
Claims Payable	20,547
Total Current Liabilities	20,547
Net Assets:	
Unrestricted	(20,547)
Total Net Assets	(\$20,547)

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	<u>Governmental Activities- Internal Service Fund</u>
Operating Revenues:	
Charges for Services	<u>\$27,840</u>
Total Operating Revenues	<u>27,840</u>
Operating Expenses:	
Contactual Services	<u>18,264</u>
Total Operating Expenses	<u>18,264</u>
Change in Net Assets	9,576
Net Assets Beginning of Year	<u>(30,123)</u>
Net Assets End of Year	<u><u>(\$20,547)</u></u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
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 Customers	\$27,840
Cash Payments to Suppliers	<u>(67,251)</u>
Net Cash Provided (Used) by Operating Activities	<u>(39,411)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(39,411)
Cash and Cash Equivalents Beginning of Year	<u>39,411</u>
Cash and Cash Equivalents End of Year	<u><u>0</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	9,576
Adjustments:	
Changes in Assets & Liabilities:	
Increase (Decrease) in Payables	<u>(48,987)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$39,411)</u></u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$5,848	\$94,661
Total Assets	<u>5,848</u>	<u>\$94,661</u>
Liabilities:		
Accounts Payable	0	7,780
Other Liabilities	0	86,881
Total Liabilities	<u>0</u>	<u>\$94,661</u>
Net Assets:		
Held in Trust	<u>5,848</u>	
Total Net Assets	<u>\$5,848</u>	

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006

	<u>Private Purpose Trust</u>
Additions:	
Donations	<u>\$0</u>
Total Additions	<u>\$0</u>
Deductions:	
Scholarships	<u>2,000</u>
Total Deductions	<u>2,000</u>
Change in Net Assets	(2,000)
Net Assets Beginning of Year	<u>7,848</u>
Net Assets End of Year	<u><u>\$5,848</u></u>

See accompanying notes to the basic financial statements.

HILLSBORO CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. DESCRIPTION OF THE DISTRICT

The Hillsboro City School District (District) operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 116 non-certificated personnel and 193 certificated teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the District's ADM is 2,831. It currently operates three elementary buildings housing grades K-5, one middle school building housing grade 6, and one Middle School/Senior High building housing grades 7-12. The Administrative Office is located at 338 West Main Street, Hillsboro, Ohio.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The District is associated with two organizations, which are defined as jointly governed organizations. These are the Hopewell Special Education Regional Resource Center and the Miami Valley Educational Computer Association. See Note 13 for more information on these organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its proprietary funds provided they do no conflict with or contradict GASB pronouncements. For proprietary funds, the District has elected not to follow subsequent private-sector guidance. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and 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 activities.

Fiduciary funds (except agency funds) are reported using the economic resources measurement focus.

FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

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

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

Classroom Facilities Fund – The classroom facilities fund is used to account for the receipts and expenditures related to the improvements of existing classroom facilities.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the District has no enterprise funds.

Internal Service Fund – This fund is used to account for the financing of services provided by one department to other departments of the District on a cost-reimbursement basis.

Fiduciary Funds

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

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. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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, included property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 year end: property taxes available for advance, grants, rent and student fees, and interest.

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.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

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 operating statement as an expense with a like amount reported as donated commodities revenue.

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

EQUITY IN POOLED CASH AND INVESTMENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

The District has invested funds in federal agency securities, money market funds, and the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 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.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$102,757, \$33,204 to the classroom facilities fund and \$49,754 to other governmental funds.

For purposes of the statement of cash flows, the Internal Service fund portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the fund without prior notice or penalty.

INVENTORY

Inventories are presented at cost on a first in, first out basis and are expensed/expensed when used. Inventory consists of food held for resale and consumable supplies.

CAPITAL ASSETS

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 two thousand dollars (\$2,000). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Buildings and Improvements	20 - 40 years
Equipment	3 - 15 years

RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization.

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vested payment method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences are recognized when due. These related liabilities are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

The District’s policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u> How Earned	<u>Certified</u> Not Eligible	<u>Administrators</u> Per Board Policy	<u>Non-Certificated</u> 10-20 days
Termination Entitlement	Not Applicable	Per Board Policy	Per Board Policy
<u>Sick Leave</u> How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	245 days	245 days	245 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Board Policy	Per Board Policy

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the 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. Of the District’s \$7,079,662 in restricted net assets, none was restricted by enabling legislation.

OPERATING REVENUES AND EXPENSES

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

FUND BALANCE RESERVES

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of

fund equity which is available for appropriation in future periods. Fund equity reserves have been established for property taxes, inventory, budget stabilization and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

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 proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated on the statement of activities.

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.

As a general rule the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

ESTIMATES

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

3. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type’s portion of this pool is displayed on the financial statements as “Equity in Pooled Cash and Investments.”

State statute requires the classification of monies held by the District into three categories:

Active Monies – Those monies required to be kept in a “cash” or “near cash” status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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 the 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 repayment of all public monies deposited with the institution.

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

- (1) United States Treasury Notes, Bills, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
- (2) Bonds, notes, debentures, or any other obligation or 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 Management 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- (6) The State Treasurer's investment pool (STAR Ohio);

- (7) Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time, and;
- (8) Under limited circumstances, debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation of 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. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand

At fiscal year end, the District had \$450 in undeposited cash on hand which is included on the statement of net assets and governmental balance sheet of the District as part of "Equity in Pooled Cash and Investments".

Deposits

The District's deposits are required to be categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered deposits which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits for which securities are held by the counterparty, or by its trust department or agent but not in the District's name. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

At fiscal year end, the carrying amount of the District's deposits was \$9,929,007 and the bank balance was \$11,093,812. Of the bank balance \$310,770 was covered by federal depository insurance (Category 1). \$10,783,042 was uninsured and uncollateralized (Category 3) and subject to custodial credit risk. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the District or its agent in the District's name holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
Federal Home Loan Bank Discount Notes	\$129,477	0.06
Federal Home Loan Bank Bonds	100,375	0.24
Federal Home Loan Bank Discount Notes	273,894	0.06
Federal Home Loan Mortgage Corporation Discount Notes	95,054	0.80
Discount Notes	165,859	0.24
Federal National Mortgage Association Discount Notes	242,183	0.98
STAROhio	<u>18,842</u>	0.00
Total Fair Value	<u>\$1,025,684</u>	
Portfolio Weighted Average Maturity		0.34

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

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

The District limits their investments to securities in STAR Ohio, Federal Home Loan Bank Bonds, Federal Home Loan Bank Discount Notes, Federal Home Loan Mortgage Corporation Discount Notes, and Federal National Mortgage Association Discount Notes. Below are the credit ratings of the District's investments:

<u>Security</u>	<u>Rating Agency</u>	
	Moody's	Standard & Poor's
STAR Ohio	N/A	AAAm
Federal Home Loan Bank Bonds and Discount Notes	Aaa	AAA
Federal Home Loan Mortgage Corporation Discount Notes	Aaa	AAA
Federal National Mortgage Association Discount Notes	Aaa	AAA

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The District's investment policy allows investments in Federal Agencies or Instrumentalities. Federal Home Loan Bank Bonds comprised 10% of the District's investments, Federal Home Loan Bank Discount Notes Comprised 39% of the District's investments, Federal Home Loan Mortgage Corporation Discount Notes comprised 25% of the District's investments, Federal National Mortgage Association Discount Notes comprised 24% of the District's investments, and STAR Ohio comprised 2% of the District's investments.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

4. PROPERTY/INCOME TAXES

Property Tax

Real property taxes collected in 2006 were levied in April on the assessed values as of January 1, 2005, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). Each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2006, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2006 and for which there is an enforceable legal claim. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006, was \$135,414 for General Fund, \$25,669 for Debt Service Fund, and \$3,145 for Other Governmental Funds, and is recognized as revenue,

with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2006 operations.

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

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

	2006 <u>Amount</u>
Agricultural/Residential and Other Real Estate	\$230,109,410
Public Utility Personal	11,942,330
Tangible Personal Property	<u>29,338,958</u>
Total	<u>\$271,390,698</u>

Income Tax

The District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuous levy. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

5. RECEIVABLES

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

6. CAPITAL ASSETS

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

	Restated Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$1,522,499	\$0	\$0	\$1,522,499
Construction in Progress	14,404,179	639,342	0	15,043,521
Total Capital Assets, not being depreciated	15,926,678	639,342	0	16,566,020
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	5,449,590	0	0	5,449,590
Equipment	6,181,734	195,857	(3,240)	6,374,351
<i>Total Capital Assets, being depreciated:</i>	11,631,324	195,857	(3,240)	11,823,941
Totals at Historical Cost	27,558,002	835,199	(3,240)	28,389,961
Less Accumulated Depreciation:				
Buildings and Improvements	(2,369,192)	(96,381)	0	(2,465,573)
Equipment	(4,534,473)	(268,548)	3,240	(4,799,781)
Total Accumulated Depreciation	(6,903,665)	(364,929)	3,240	(7,265,354)
Governmental Activities Capital Assets, Net	\$20,654,337	\$470,270	\$0	\$21,124,607

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$161,837
Special		3,927
Vocational		1,821
Support Services:		
Pupil		1,381
Instructional Staff		13,074
School Administration		7,186
Fiscal		2,736
Operations and Maintenance		16,729
Pupil Transportation		136,927
Operation of Non-Instructional Services		5,389
Extracurricular Activities		13,922
Total Depreciation Expense		<u><u>\$364,929</u></u>

7. NOTES PAYABLE

During fiscal year 2005, the District issued one-year \$3,250,000 bond anticipation notes for the purpose of construction and renovation of buildings. This note will be repaid with bond proceeds. This note is backed by the full faith and credit of the District. The note liability is reflected in the fund which received the proceeds.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Permanent Improvement				
Debt Service Fund:				
2.85% Bond Anticipation Note	<u>\$3,250,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$3,250,000</u>
Totals	<u>\$3,250,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$3,250,000</u>

8. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Restated Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>						
<u>General Obligation Bonds:</u>						
School Improvement 2001 3.25%	12/01/28	\$9,405,000	\$ 0	\$230,000	\$9,175,000	\$240,000
School Improvement 2006 2.85%	12/01/28	0	3,250,000	0	3,250,000	45,000
Capital Lease		<u>277,107</u>	<u>0</u>	<u>64,792</u>	<u>212,315</u>	<u>68,156</u>
Total Long Term Debt		9,682,107	3,250,000	294,792	12,637,315	353,156
Compensated Absences		<u>898,500</u>	<u>109,524</u>	<u>106,273</u>	<u>901,751</u>	<u>165,067</u>
Total Governmental Activities Long-Term Liabilities		<u>\$10,580,607</u>	<u>\$3,359,524</u>	<u>\$401,065</u>	<u>\$13,539,066</u>	<u>\$518,223</u>

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$285,000	\$577,732	\$862,732
2008	340,000	563,695	903,695
2009	350,000	551,156	901,156
2010	365,000	537,697	902,697
2011	375,000	523,228	898,228
2012-2016	2,120,000	2,369,466	4,489,466
2017-2021	2,690,000	1,780,863	4,470,863
2022-2026	3,420,000	1,032,591	4,452,591
2027-2029	<u>2,480,000</u>	<u>184,474</u>	<u>2,664,474</u>
Totals	<u>\$12,425,000</u>	<u>\$8,120,902</u>	<u>\$20,545,902</u>

9. LEASES

CAPITAL LEASES

The District has entered into a capital lease for buses.

The lease meets the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the leasee. Capital lease payments for the buses will be made from the Permanent Improvement fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

Fiscal Year Ending June 30,	Long-Term Debt
2007	\$76,203
2008	76,203
2009	<u>76,203</u>
Total Minimum Lease Payments	228,609
Less: Amount Representing Interest	<u>(16,294)</u>
Present Value of Minimum Lease Payments	<u>\$212,315</u>

Capital assets acquired under capital leases in accordance with Statement of Financial Accounting Standards No. 13 are as follows:

Equipment	\$381,014
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10. PENSION PLANS

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 43215-3476, or by calling (800) 878-5853 or by visiting SERS website at ohsers.org.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$473,892, \$466,536, and \$447,228 respectively; 50% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004.

STATE TEACHERS RETIREMENT SYSTEM

The District participates in 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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS website at strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and 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 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% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,334,988, \$1,394,016, and \$1,382,832 respectively; 84% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004.

11. POST EMPLOYMENT 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 included hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provision 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 School District, this amount equaled \$95,356 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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 .01 percent from fiscal year 2005. For the District, this amount equaled \$115,765 for fiscal year 2006. 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.

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, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

12. CONTINGENT LIABILITIES

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2006.

LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

13. JOINTLY GOVERNED ORGANIZATIONS

The **Hopewell Special Education Regional Resource Center** (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school district to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of Superintendents from the seventeen school districts, plus county board of education, mental retardation and developmental disabilities, and joint vocational school superintendents, as well as three parents of handicapped children in the region. The Clinton County Board of Education acts as fiscal agent. Hopewell receives funding from contracts with each of the member school districts and Federal and State grants.

The **Miami Valley Educational Computer Association** (MVECA) is a jointly governed organization consisting of 27 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports MVECA and shares in a percentage equity based on the resources provided. MVECA is governed by a board of directors consisting of superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. To obtain financial information write to: Mr. Steven Sutcliffe, Treasurer, Greene County Career Center, 2960 West Enon Road, Xenia, Ohio 45385.

14. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The District addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 for automobile liability. The District also has umbrella liability coverage with a limit of \$1,000,000. There has been no significant change in coverage from the prior year. Settled claims have not exceeded coverage in any of the past 3 years.

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$38,971,364. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The District pays all appointed officials' bonds by statute.

Dental insurance is offered to employees through the Internal Service Fund. The claims liability of \$20,547 reported in the Internal Service Fund at fiscal year end is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the fiscal year follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
FY 2006	\$69,534	\$18,264	\$67,251	\$20,547
FY 2005	53,900	277,598	261,964	69,534
FY 2004	49,107	247,120	242,327	53,900

15. ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
General Fund	\$334,280
Special Revenue Fund:	
Food Service	146,303
Customer Service	2,600
Internal Service	20,547

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

16. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2006, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2005	(\$785,439)	\$ 0	\$75,952
Current Year Set-aside Requirement	410,883	410,883	0
Qualified Disbursements	(54,578)	(42,137)	0
Current Year Offsets	<u>0</u>	<u>(368,746)</u>	<u>0</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$75,952</u>
Restricted Cash as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$75,952</u>
Carry Forward to FY2007	<u>(\$429,134)</u>	<u>\$ 0</u>	<u>\$ 0</u>

Qualifying expenditures, including carry forward for textbook activity during the year were \$840,017, which exceeds the required set-aside reserve. Although the District had qualifying disbursements, including current year offsets, during the fiscal year that reduced the capital maintenance set-aside amount below zero, only the amount for the textbook set-aside may be used to reduce the set-aside requirement of future years.

17. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2006, consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

	<u>Interfund</u>		<u>Transfers</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$194,311	\$0	\$497,318	\$0
Classroom Facilities Fund	0	0	564,081	0
Other Governmental Funds	<u>7,586</u>	<u>201,897</u>	<u>34,541</u>	<u>1,095,940</u>
Total All Funds	<u>\$201,897</u>	<u>\$201,897</u>	<u>\$1,095,940</u>	<u>\$1,095,940</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

18. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required to restate capital assets and the capital lease at June 30, 2005 due to an understatement of capital assets and accumulated depreciation in the prior year and the understatement of the capital lease in prior year. This restatement had the following effect on net assets at June 30, 2005:

	<u>General</u>
Net assets as previously reported	\$9,390,943
Restatement for capital assets	68,199
Restatement for capital leases	<u>(277,107)</u>
Net assets, restated at June 30, 2005	<u>\$9,182,035</u>

19. CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 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".

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on the fund balance/net assets as a result of the implementation of these new standards.

20. FINANCIAL CONDITION

On September 30, 2005, the School District was placed into Fiscal Caution by the Ohio Department of Education. Under Revised Code Section 3316.031 (B) (1), the Ohio Department of Education will place a school district in Fiscal Caution if it is determined through the 5-year forecast that conditions exist that could result in fiscal watch or fiscal emergency. The School District has prepared a recovery plan which has been submitted to and approved by the Ohio Department of Education. The School District will be required to update their recovery plan if the School District experiences significant changes of events. As of June 30, 2006, the School District was still in Fiscal Caution.

21. SUBSEQUENT EVENTS

On August 16, 2006, the School District repaid the \$3,250,000 Bond Anticipation Note.

Hillsboro City School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2006

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$6,854,836	\$7,142,733	\$7,501,671	\$358,938
Tuition and Fees	441,461	530,394	483,118	(47,276)
Investment Earnings	84,635	39,593	92,621	53,028
Intergovernmental	11,088,513	12,065,578	12,134,846	69,268
Other Revenues	209,938	102,725	229,748	127,023
Total Revenues	18,679,383	19,881,023	20,442,004	560,981
Expenditures:				
Current:				
Instruction:				
Regular	9,099,917	8,781,147	8,935,152	(154,005)
Special	1,341,155	1,294,175	1,316,872	(22,697)
Vocational	736,440	710,643	723,106	(12,463)
Other	1,190,820	1,149,106	1,169,259	(20,153)
Support Services:				
Pupil	962,510	928,794	945,083	(16,289)
Instructional Staff	1,118,255	1,079,083	1,098,008	(18,925)
General Administration	21,158	20,417	20,775	(358)
School Administration	2,376,222	2,292,983	2,333,198	(40,215)
Fiscal	552,918	533,550	542,907	(9,357)
Operations and Maintenance	1,951,447	1,883,088	1,916,114	(33,026)
Pupil Transportation	1,603,166	1,547,007	1,574,139	(27,132)
Central	4,878	4,707	4,790	(83)
Operation of Non-Instructional Services	67,239	64,884	66,022	(1,138)
Extracurricular Activities	252,330	243,491	247,761	(4,270)
Capital Outlay	13,229	12,765	12,989	(224)
Total Expenditures	21,291,684	20,545,840	20,906,175	(360,335)
Excess of Revenues Over (Under) Expenditures	(2,612,301)	(664,817)	(464,171)	200,646
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	16,029	16,029	17,541	1,512
Advances (Out)	(60,068)	(57,963)	(58,980)	(1,017)
Transfers In	466,652	500,000	510,686	10,686
Transfers (Out)	(20,366)	(19,652)	(19,997)	(345)
Total Other Financing Sources (Uses)	402,247	438,414	449,250	10,836
Net Change in Fund Balance	(2,210,054)	(226,403)	(14,921)	211,482
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	318,861	318,861	318,861	0
Fund Balance End of Year	(\$1,891,193)	\$92,458	\$303,940	\$211,482

See accompanying notes to the required supplementary information.

HILLSBORO CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2006

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2006.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

While the District is 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, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$820,889
Net Adjustment for Revenue Accruals	117,926
Net Adjustment for Expenditure Accruals	(767,293)
Encumbrances	<u>(186,443)</u>
Budget Basis	<u>(\$14,921)</u>

Hillsboro City School District
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
School Breakfast Program	O5PU	10.553	\$59,550	\$0	\$59,550	\$0
National School Lunch Program	LLP4	10.555	273,336	0	273,336	0
<i>Total Nutrition Cluster</i>			332,886	0	332,886	0
Food Donation	NA	10.550	0	46,170	0	46,170
Total United States Department of Agriculture			332,886	46,170	332,886	46,170
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1S1	84.010	779,753	0	874,749	0
Title I Grants to Local Educational Agencies	C1SD	84.010	7,123	0	7,526	0
<i>Special Education Cluster</i>						
Special Education - Grants to States	6BPB	84.027	15,090	0	9,526	0
Special Education - Grants to States	6BSF	84.027	565,051	0	645,135	0
Special Education - Preschool Grants	PGS1	84.173	6,950	0	3,372	0
<i>Total Special Education Cluster</i>			587,091	0	658,033	0
Safe and Drug-Free Schools and Communities - National Programs	T4S1	84.184C	11,250	0	11,250	0
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	20,867	0	20,349	0
Twenty-First Century Community Learning Centers	T1S1	84.287	358,630	0	374,305	0
State Grants for Innovative Programs	C2S1	84.298	7,223	0	5,639	0
Education Technology State Grants	TJS1	84.318	19,698	0	20,356	0
Improving Teacher Quality State Grants	TRS1	84.367	131,983	0	162,633	0
Hurricane Education Recovery	HR01	84.938	11,750	0	0	0
<i>Passed through the Great Oaks Institute of Technology and Career Development</i>						
Vocational Education - Basic Grants to States	NA	84.048	7,219	0	7,525	0
Total United States Department of Education			1,942,587	0	2,142,365	0
United States Department of Health and Human Services						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
State Children's Insurance Program	NA	93.767	2,576	0	2,576	0
Medical Assistance Program	NA	93.778	24,079	0	24,079	0
Total United States Department of Health and Human Services			26,655	0	26,655	0
Total Federal Financial Assistance			\$2,302,128	\$46,170	\$2,501,906	\$46,170

NA - Not Available

See accompanying notes to the schedule of federal awards expenditures

Hillsboro City School District
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2006

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DONATION

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 market value of the commodities received.

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

NOTE C – MEDICAL ASSISTANCE PROGRAM

Receipts for this grant are posted to the general fund. It is assumed that federal monies are expended first.

BALESTRA, HARR & SCHERER CPAs, INC.

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Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hillsboro City School District (the District), Highland County, 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, and have issued our report thereon dated February 28, 2007, wherein we indicated the District implemented GASB Statements No. 42, 46, and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or another matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2006-1.

We also noted certain matters that we reported to the management of the District in a separate letter dated February 28, 2007.

Members of the Board
Hillsboro City School District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
February 28, 2007

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

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

Compliance

We have audited the compliance of Hillsboro City School District (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 are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Internal Control Over Compliance

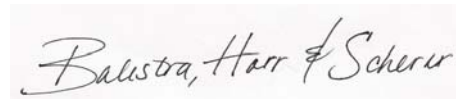
The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit we considered the internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We noted certain matters that we reported to the management of the District in a separate letter dated February 28, 2007.

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



Balestra, Harr & Scherer, CPAs, Inc.
February 28, 2007

Hillsboro City School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(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 Program (list):	Title I Grants to Local Educational Agencies, CFDA # 84.010; Special Education Cluster, CFDA # 84.027 and #84.173; Twenty-First Century Community Learning Centers, CFDA # 84.287
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

Hillsboro City School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
(Continued)
June 30, 2006

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

Finding 2006-1 – Expenditures and Encumbrances in Excess of Appropriations

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. The District had instances of non-compliance due to expenditures exceeding appropriations. The District should implement procedures to ensure that expenditures, including outstanding encumbrances, do not exceed appropriations. Amended appropriation measures, limited to estimated resources, should be passed in order to prevent this type of occurrence.

Client Response:

The Treasurer was unaware that expenditure commitments included outstanding encumbrances and encumbered expenditures for fiscal year 2007 for its Ohio School Facilities Commission project in fiscal year 2006. The Treasurer now understands this requirement and has corrected the situation in fiscal year 2007.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2007