

HUBER HEIGHTS CITY SCHOOL DISTRICT

Basic Financial Statements

June 30, 2006

with

Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

Board of Education
Huber Heights City School District
5954 Longford Road
Huber Heights, Ohio 45424

We have reviewed the *Independent Auditor's Report* of the Huber Heights City School District, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., 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 Huber Heights City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 5, 2007

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HUBER HEIGHTS CITY SCHOOL DISTRICT

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
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Independent Auditor's Report

Board of Education
Huber Heights City School District
5954 Longford Rd
Huber Heights, OH 45424

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Huber Heights City School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements. 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 *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 Huber Heights City School District, as of June 30, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 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 on pages 3 through 10, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
February 23, 2007

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

The discussion and analysis of Huber Heights 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 financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2006 are as follows:

- In total, net assets increased \$4,250,226, which represents a 15% increase from 2005.
- General revenues accounted for \$58,056,276 in revenue or 90% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,509,198 or 10% of total revenues of \$64,565,474.
- The District had \$60,315,248 in expenses related to governmental activities; only \$6,509,198 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$58,056,276 were adequate to provide for these programs.
- The District's only major fund, the general fund, had \$58,070,097 in revenues and \$53,954,538 in expenditures. The general fund's fund balance increased \$4,260,171 to \$15,297,010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. The Government-Wide Financial Statements – These statements provide both long-term and short-term information about the District's overall financial status.
2. The Fund Financial Statements – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net-assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category for its activities:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

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.

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs, various scholarship programs and other items listed as agency. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2006 compared to 2005.

	Governmental Activities		Increase (Decrease)
	2006	2005	
Current and other assets	\$50,644,009	\$44,950,274	\$5,693,735
Capital assets, Net	18,963,475	18,244,546	718,929
Total assets	69,607,484	63,194,820	6,412,664
Long-term debt outstanding	3,118,167	3,672,791	(554,624)
Other liabilities	33,161,318	30,444,256	2,717,062
Total liabilities	36,279,485	34,117,047	2,162,438
Net assets			
Invested in capital assets, net of related debt	18,055,885	17,084,009	971,876
Restricted	945,368	2,271,803	(1,326,435)
Unrestricted	14,326,746	9,721,961	4,604,785
Total net assets	\$33,327,999	\$29,077,773	\$4,250,226

Total assets of the District's governmental activities increased 10% compared to the prior year. Increases in cash and investments as well as property taxes receivable contributed to this increase. Total liabilities increased 6% compared to the prior year mostly due to increases in deferred tax revenue. Long-term liabilities decreased 15% as a result of principal retirements.

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006 compared to 2005:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Revenues			
Program revenues:			
Charges for Services and Sales	\$2,989,914	\$2,892,593	\$97,321
Operating Grants and Contributions	3,519,284	3,718,090	(198,806)
Total Program revenues	6,509,198	6,610,683	(101,485)
General revenues:			
Property Taxes	26,694,360	25,331,112	1,363,248
Grants and Entitlements	30,427,366	30,273,271	154,095
Other	934,550	426,029	508,521
Total General revenues	58,056,276	56,030,412	2,025,864
Total revenues	64,565,474	62,641,095	1,924,379
Program Expenses			
Instruction	37,806,462	38,667,441	(860,979)
Support Services:			
Pupils	2,464,973	2,706,362	(241,389)
Instructional Staff	3,426,393	3,710,627	(284,234)
Board of Education	34,234	27,007	7,227
Administration	3,711,064	3,862,105	(151,041)
Fiscal Services	923,494	914,423	9,071
Business	525,396	470,875	54,521
Operation and Maintenance of Plant	4,279,060	4,595,928	(316,868)
Pupil Transportation	2,882,757	2,833,567	49,190
Central	516,106	626,951	(110,845)
Operation of Non-Instructional:			
Food Service Operations	2,155,133	2,094,157	60,976
Community Services	689,803	581,465	108,338
Extracurricular Activities	847,090	831,279	15,811
Debt Service:			
Interest and Fiscal Charges	53,283	23,595	29,688
Total expenses	60,315,248	61,945,782	(1,630,534)
Total Change in Net Assets	4,250,226	695,313	3,554,913
Beginning Net Assets	29,077,773	28,382,460	695,313
Ending Net Assets	\$33,327,999	\$29,077,773	\$4,250,226

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

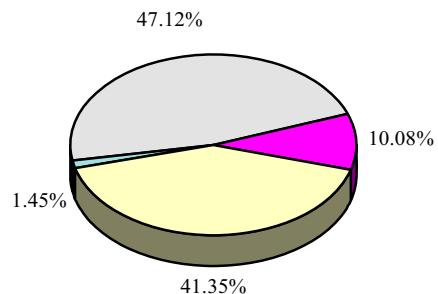
Governmental Activities

Net assets of the District's governmental activities increased \$4,250,226. The passage of a new replacement levy contributed to the increase in taxes. Expenses for instruction and staff decreased due to the retirement of staff. Decreases in the amount of extended time given contributed to the decrease in expenses for pupils. A large amount of textbooks were purchased in fiscal 2005. This was not repeated in fiscal 2006, and also contributed to the decrease in instruction.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the 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.

Property taxes made up 41% of revenues for governmental activities for Huber Heights City Schools in fiscal year 2006. The District's reliance upon tax revenues is demonstrated by the following graph:

Revenue Sources	2006	Percent of Total
General Grants	\$30,427,366	47.12%
Program Revenues	6,509,198	10.08%
General Tax Revenues	26,694,360	41.35%
General Other	934,550	1.45%
Total Revenue	<u>\$64,565,474</u>	<u>100.00%</u>



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$16,323,589, which is above last year's total of \$13,336,071. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)
General	\$15,297,010	\$11,036,839	\$4,260,171
Other Governmental	1,026,579	2,299,232	(1,272,653)
Total	<u>\$16,323,589</u>	<u>\$13,336,071</u>	<u>\$2,987,518</u>

The District's Other Governmental Funds balance decreased 55% due to decreases in Federal Grants as well as capital outlays for school building improvements. The General Fund balance increase, which is due to several factors, is illustrated below.

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

General Fund – The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2006 <u>Revenues</u>	2005 <u>Revenues</u>	Increase (Decrease)
Taxes	\$25,884,340	\$25,491,304	\$393,036
Tuition	176,782	321,178	(144,396)
Transportation Fees	227,117	268,033	(40,916)
Investment Earnings	729,311	329,993	399,318
Extracurricular Activities	171,920	92,510	79,410
Class Materials and Fees	21,765	21,099	666
Intermediate Sources	338,263	189,113	149,150
Intergovernmental - State	30,240,436	30,389,278	(148,842)
Intergovernmental - Federal	101,503	109,573	(8,070)
All Other Revenue	178,660	88,110	90,550
Total	<u><u>\$58,070,097</u></u>	<u><u>\$57,300,191</u></u>	<u><u>\$769,906</u></u>

General Fund revenues in 2006 increased approximately 1.3% compared to revenues in fiscal year 2005. The passage of a new levy contributed to the increase in taxes. Increases in interest rates contributed to the increase in investment earnings.

	2006 <u>Expenditures</u>	2005 <u>Expenditures</u>	Increase (Decrease)
Instruction	\$35,281,350	\$36,361,616	(\$1,080,266)
Supporting Services:			
Pupils	2,202,409	2,510,485	(308,076)
Instructional Staff	2,525,305	2,906,683	(381,378)
Board of Education	34,011	26,471	7,540
Administration	3,759,703	3,662,195	97,508
Fiscal Services	975,082	867,649	107,433
Business	534,032	439,166	94,866
Operation & Maintenance of Plant	4,751,966	4,599,235	152,731
Pupil Transportation	2,748,387	2,801,104	(52,717)
Central	424,492	581,113	(156,621)
Extracurricular Activities	543,655	607,520	(63,865)
Debt Service			
Principal Retirement	147,735	161,382	(13,647)
Interest and Fiscal Charges	26,411	19,346	7,065
Total	<u><u>\$53,954,538</u></u>	<u><u>\$55,543,965</u></u>	<u><u>(\$1,589,427)</u></u>

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

The expenditures decreased \$1,589,427 or 3% compared to the prior year. Expenditures for instruction and staff decreased due to the retirement of staff. Decreases in the amount of extended time given contributed to the decrease in expenditures for pupils. A large amount of textbooks were purchased in fiscal 2005. This was not repeated in fiscal 2006, and also contributed to the decrease in instruction.

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

During the course of fiscal year 2006 the District amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue was \$59 million, which was above original budget estimates of \$57 million. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006 the District had \$18,963,475 net of accumulated depreciation invested in land, improvements, buildings, equipment and vehicles. The following table shows fiscal year 2006 and 2005 balances:

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2006</u>	<u>2005</u>	
Land	\$978,013	\$978,013	\$0
Land Improvements	1,051,645	1,013,224	38,421
Buildings and Improvements	25,500,212	24,312,348	1,187,864
Machinery and Equipment	3,831,408	3,866,112	(34,704)
Vehicles	3,029,389	2,869,444	159,945
Less: Accumulated Depreciation	<u>(15,427,192)</u>	<u>(14,794,595)</u>	<u>(632,597)</u>
Totals	<u>\$18,963,475</u>	<u>\$18,244,546</u>	<u>\$718,929</u>

The increase in buildings and improvements was the result of improvements at Wayne High School. The increase in vehicles was caused by the acquisition of buses.

Additional information on the District's capital assets can be found in Note 8.

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

Debt

At June 30, 2006, the District had \$3.1 million in notes, leases and compensated absences outstanding, \$506,747 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Governmental Activities:		
Energy Conservation Notes:		
School Improvement	\$462,385	\$610,120
Capital Leases Payable	445,205	550,417
Compensated Absences	<u>2,210,577</u>	<u>2,512,254</u>
Totals	<u>\$3,118,167</u>	<u>\$3,672,791</u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2006, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 10.

ECONOMIC FACTORS

The District is strong financially, but with the possible loss of manufacturing plants in the area the economic health of the community is uncertain coupled with increased health care cost the District will face budget challenges in the up coming years.

The Huber Heights City School District receives approximately 57% of its funding from the State and the remaining 43% from local sources

In conclusion, the Huber Heights City School District has committed itself to financial excellence for many years.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Ann Bernardo, Treasurer for the Huber Heights City School District.

HUBER HEIGHTS CITY SCHOOL DISTRICT

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HUBER HEIGHTS CITY SCHOOL DISTRICT

Statement of Net Assets ***June 30, 2006***

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 13,655,231
Investments	6,384,113
Receivables:	
Taxes	28,574,769
Accounts	2,155
Intergovernmental	728,651
Interest	195,633
Inventory of Supplies at Cost	554,117
Restricted Assets:	
Cash and Cash Equivalents	511,491
Cash with Fiscal Agent	37,849
Non-Depreciable Capital Assets	978,013
Depreciable Capital Assets, Net	17,985,462
Total Assets	69,607,484
Liabilities:	
Accounts Payable	202,895
Accrued Wages and Benefits	5,137,916
Intergovernmental Payable	1,458,162
Unearned Revenue - Taxes	26,353,904
Accrued Interest Payable	8,441
Long Term Liabilities:	
Due Within One Year	506,747
Due in More Than One Year	2,611,420
Total Liabilities	36,279,485
Net Assets:	
Invested in Capital Assets, Net of Related Debt	18,055,885
Restricted For:	
Capital Projects	711,491
Debt Service	61,341
Other Purposes	172,536
Unrestricted	14,326,746
Total Net Assets	\$ 33,327,999

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Statement of Activities For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues		Net (Expense) Revenue and and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 37,806,462	\$ 572,013	\$ 1,315,831	\$ (35,918,618)
Support Services:				
Pupils	2,464,973	0	243,751	(2,221,222)
Instructional Staff	3,426,393	0	740,406	(2,685,987)
Board of Education	34,234	0	0	(34,234)
Administration	3,711,064	0	91,263	(3,619,801)
Fiscal Services	923,494	0	0	(923,494)
Business	525,396	0	0	(525,396)
Operation and Maintenance of Plant	4,279,060	0	0	(4,279,060)
Pupil Transportation	2,882,757	227,117	37,899	(2,617,741)
Central	516,106	0	52,160	(463,946)
Operation of Non-Instructional:				
Food Service Operations	2,155,133	1,384,347	627,043	(143,743)
Community Services	689,803	0	410,931	(278,872)
Extracurricular Activities	847,090	806,437	0	(40,653)
Interest and Fiscal Charges	53,283	0	0	(53,283)
Total Governmental Activities	<u>\$ 60,315,248</u>	<u>\$ 2,989,914</u>	<u>\$ 3,519,284</u>	<u>\$ (53,806,050)</u>
 General Revenues				
Property Taxes Levied for:				
General Purposes				25,879,090
Capital Outlay				815,270
Grants and Entitlements not Restricted to Specific Programs				30,427,366
Investment Earnings				730,452
Miscellaneous				204,098
Total General Revenues				<u>58,056,276</u>
Change in Net Assets				4,250,226
Net Assets Beginning of Year				<u>29,077,773</u>
Net Assets End of Year				<u>\$ 33,327,999</u>

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 12,312,147	\$ 1,343,084	\$ 13,655,231
Investments	6,384,113	0	6,384,113
Receivables:			
Taxes	27,743,231	831,538	28,574,769
Accounts	113	2,042	2,155
Intergovernmental	0	728,651	728,651
Interest	195,633	0	195,633
Interfund Loan Receivable	448,784	0	448,784
Inventory of Supplies at Cost	534,062	20,055	554,117
Restricted Assets:			
Cash and Cash Equivalents	511,491	0	511,491
Cash with Fiscal Agent	0	37,849	37,849
Total Assets	\$ 48,129,574	\$ 2,963,219	\$ 51,092,793
Liabilities:			
Accounts Payable	\$ 108,179	\$ 94,716	\$ 202,895
Accrued Wages and Benefits	4,821,046	316,870	5,137,916
Intergovernmental Payable	1,354,432	103,730	1,458,162
Interfund Loans Payable	0	448,784	448,784
Deferred Revenue - Taxes	26,548,907	794,958	27,343,865
Deferred Revenue	0	177,582	177,582
Total Liabilities	32,832,564	1,936,640	34,769,204
Fund Balance:			
Reserved for Encumbrances	517,042	701,162	1,218,204
Reserved for Supplies Inventory	534,062	20,055	554,117
Reserved for Property Taxes	1,194,324	36,580	1,230,904
Reserved for Endowments	0	1,835	1,835
Reserved for Textbooks	511,491	0	511,491
Reserved for Matured Bonds and Interest Payable	0	21,129	21,129
Reserved for Restricted Donations	0	16,720	16,720
Unreserved, Undesignated in:			
General Fund	12,540,091	0	12,540,091
Special Revenue Funds (Deficit)	0	(75,793)	(75,793)
Capital Projects Funds	0	235,109	235,109
Debt Service Funds	0	69,782	69,782
Total Fund Balance	15,297,010	1,026,579	16,323,589
Total Liabilities and Fund Balance	\$ 48,129,574	\$ 2,963,219	\$ 51,092,793

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2006

Total Governmental Fund Balances \$ 16,323,589

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 18,963,475

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 1,167,543

Long-term liabilities, including bonds payable, are not due
and payable in the current period and therefore are not
reported in the funds.

Energy Conservation Notes Payable	(462,385)	
Capital Leases Payable	(445,205)	
Compensated Absences Payable	(2,210,577)	
Interest Payable	(8,441)	(3,126,608)
	<u> </u>	<u> </u>

Net Assets of Governmental Funds **\$ 33,327,999**

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Local Sources:			
Taxes	\$ 25,884,340	\$ 820,288	\$ 26,704,628
Tuition	176,782	719	177,501
Transportation Fees	227,117	0	227,117
Investment Earnings	729,311	1,141	730,452
Food Services	0	1,384,347	1,384,347
Extracurricular Activities	171,920	634,517	806,437
Class Materials and Fees	21,765	372,747	394,512
Intermediate Sources	338,263	0	338,263
Intergovernmental - State	30,240,436	698,927	30,939,363
Intergovernmental - Federal	101,503	2,563,906	2,665,409
All Other Revenue	178,660	25,438	204,098
Total Revenue	58,070,097	6,502,030	64,572,127
Expenditures:			
Current:			
Instruction	35,281,350	1,623,699	36,905,049
Supporting Services:			
Pupils	2,202,409	245,027	2,447,436
Instructional Staff	2,525,305	898,544	3,423,849
Board of Education	34,011	0	34,011
Administration	3,759,703	92,725	3,852,428
Fiscal Services	975,082	7,599	982,681
Business	534,032	0	534,032
Operation and Maintenance of Plant	4,751,966	0	4,751,966
Pupil Transportation	2,748,387	243,738	2,992,125
Central	424,492	117,160	541,652
Operation of Non-Instructional:			
Food Service Operations	0	2,155,350	2,155,350
Community Services	0	682,157	682,157
Extracurricular Activities	543,655	315,238	858,893
Capital Outlay	0	1,178,339	1,178,339
Debt Service:			
Principal Retirement	147,735	173,887	321,622
Interest & Fiscal Charges	26,411	22,680	49,091
Total Expenditures	53,954,538	7,756,143	61,710,681
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,115,559	(1,254,113)	2,861,446
Other Financing Sources (Uses):			
Other Financing Sources - Capital Lease	0	68,675	68,675
Transfers In	92,471	6,265	98,736
Transfers Out	(6,265)	(92,471)	(98,736)
Total Other Financing Sources (Uses)	86,206	(17,531)	68,675
Net Change in Fund Balance	4,201,765	(1,271,644)	2,930,121
Fund Balance at Beginning of Year	11,036,839	2,299,232	13,336,071
Increase (Decrease) in Inventory Reserve	58,406	(1,009)	57,397
Fund Balance End of Year	\$ 15,297,010	\$ 1,026,579	\$ 16,323,589

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2006***

Net Change in Fund Balances - Total Governmental Funds \$ 2,930,121

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 742,289

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets net of proceeds received. (23,360)

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

Change in Deferred Revenues	(6,653)	
Change in Inventory	57,397	50,744

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of long term note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Energy Conservation Note Principal Payment	147,735	
Capital Lease Principal Payment	173,887	
New Capital Lease	(68,675)	252,947

In the statement of activities, interest is accrued on outstanding long term debt, whereas in governmental funds, an interest expenditure is reported when due. (4,192)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. 301,677

Change in Net Assets of Governmental Activities \$ 4,250,226

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Fiscal Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 24,657,951	\$ 24,657,951	\$ 26,912,801	\$ 2,254,850
Tuition	327,995	327,995	176,972	(151,023)
Transportation Fees	354,280	354,280	227,117	(127,163)
Investment Earnings	340,894	340,894	582,564	241,670
Extracurricular Activities	94,362	94,362	171,920	77,558
Class Material and Fees	21,522	21,522	21,745	223
Intermediate Sources	192,895	192,895	338,263	145,368
Intergovernmental - State	30,997,061	30,997,061	30,240,436	(756,625)
Intergovernmental - Federal	111,764	111,764	101,503	(10,261)
All Other Revenues	91,548	91,548	179,884	88,336
Total Revenues	57,190,272	57,190,272	58,953,205	1,762,933
Expenditures:				
Current:				
Instruction	37,113,261	36,370,277	35,711,502	658,775
Support Services:				
Pupils	2,524,868	2,416,582	2,246,871	169,711
Instructional Staff	3,137,218	3,206,765	2,593,527	613,238
Board of Education	53,868	53,868	37,519	16,349
Administration	3,970,742	3,917,305	3,756,717	160,588
Fiscal Services	1,056,431	1,056,431	1,011,738	44,693
Business	565,975	611,972	554,851	57,121
Operation and Maintenance of Plant	5,477,190	5,381,953	5,088,697	293,256
Pupil Transportation	2,747,520	2,739,490	2,784,273	(44,783)
Central	673,939	618,692	445,151	173,541
Extracurricular Activities	644,352	633,188	556,034	77,154
Debt Service:				
Principal Retirement	125,000	170,557	170,556	1
Interest and Fiscal Charges	56,000	26,688	26,688	0
Total Expenditures	58,146,364	57,203,768	54,984,124	2,219,644
Excess (Deficiency) of Revenues Over (Under) Expenditures	(956,092)	(13,496)	3,969,081	3,982,577

(Continued)

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Fiscal Year Ended June 30, 2006***

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Transfers In	0	0	92,471	92,471
Transfers Out	0	(6,265)	(6,265)	0
Advances In	342,194	342,194	66,500	(275,694)
Advances Out	0	(448,784)	(448,784)	0
Refund of Prior Year's Expenditures	90,352	90,352	160,347	69,995
Refund of Prior Year's Receipts	0	(280)	(280)	0
Total Other Financing Sources (Uses):	<u>432,546</u>	<u>(22,783)</u>	<u>(136,011)</u>	<u>(113,228)</u>
Net Change in Fund Balance	(523,546)	(36,279)	3,833,070	3,869,349
Fund Balance at Beginning of Year	14,052,188	14,052,188	14,052,188	0
Prior Year Encumbrances	708,271	708,271	708,271	0
Fund Balance at End of Year	<u>\$ 14,236,913</u>	<u>\$ 14,724,180</u>	<u>\$ 18,593,529</u>	<u>\$ 3,869,349</u>

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Statement of Net Assets
Fiduciary Funds
June 30, 2006***

	Private Purpose Trust	
	Special Trust Fund	Agency
Assets:		
Cash and Cash Equivalents	\$ 7,168	\$ 103,772
Total Assets	<u>7,168</u>	<u>103,772</u>
Liabilities:		
Due to Students	0	103,772
Total Liabilities	<u>0</u>	<u>103,772</u>
Net Assets:		
Unrestricted	7,168	0
Total Net Assets	<u>\$ 7,168</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

***Statement of Changes in Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006***

	Private Purpose Trust
	<u>Special Trust Fund</u>
Additions:	
Contributions:	
Private Donations	\$ 2,417
Total Additions	<u>2,417</u>
Deductions:	
Community Gifts, Awards and Scholarships	<u>2,000</u>
Total Deductions	<u>2,000</u>
Change in Net Assets	417
Net Assets at Beginning of Year	<u>6,751</u>
Net Assets End of Year	<u><u>\$ 7,168</u></u>

See accompanying notes to the basic financial statements

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Huber Heights City School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 336 non-certified and approximately 547 certified teaching personnel and administrative employees providing education to 6,757 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the District. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the District's reporting entity. Based on the foregoing, the reporting entity of the District includes the following services: instructional (regular, special education, vocational), student guidance, extracurricular activities, food service, pupil transportation and care and upkeep of grounds and buildings.

The District is associated with four organizations, which are defined as jointly governed, and one public entity risk pool. These organizations include the Metropolitan Dayton Educational Computer Association (MDECA), the Southwestern Ohio Educational Purchasing Council, the Miami Valley Career Technical Center, Southwestern Ohio Instructional Technology Association and the Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are grouped into the categories governmental and fiduciary.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following is the District's only major governmental fund:

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into two classifications: 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 therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust that accounts for scholarship programs, gifts and awards for specific students. State law permits the District to appropriate for purposes consistent with the endowment's intent, net appreciation, both realized and unrealized. The District's agency fund accounts for various student-managed activity programs. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation.

C. Basis of Presentation - Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. Governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Revenue considered susceptible to accrual at year end includes property taxes available for advance, tuition, grants, student fees, and interest on investments.

Current property taxes measurable at June 30, 2006, of which are not intended to finance fiscal 2006 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2006 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the function level in the General Fund and fund level for all other funds. Budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2006.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the function level in the General Fund and fund level for all other funds. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

5. Budgetary Basis of Accounting

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

<u>Net Change in Fund Balance</u>	<u>General Fund</u>
GAAP Basis (as reported)	\$4,201,765
Increase (Decrease):	
Accrued Revenues at June 30, 2006, received during FY 2007	(1,829,296)
Accrued Revenues at June 30, 2005, received during FY 2006	2,330,274
Accrued Expenditures at June 30, 2006, paid during FY 2007	6,283,657
Accrued Expenditures at June 30, 2005, paid during FY 2006	(6,529,556)
Encumbrances Outstanding	<u>(623,774)</u>
Budget Basis	<u><u>\$3,833,070</u></u>

F. Cash and Cash Equivalents

During fiscal year 2006, cash and cash equivalents included amounts in demand deposits, money market mutual funds, and repurchase agreements.

The District pools its cash for investment and resource management purposes. Each fund's cash and cash equivalents on the balance sheet represents the balance on hand as if each fund maintained its own cash account. See Note 3, "Cash, Cash Equivalents and Investments."

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements) which are reported at cost. See Note 3, "Cash, Cash Equivalents and Investments."

H. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

I. Capital Assets and Depreciation

Capital assets are defined by the District as assets with an initial, individual cost of more than \$5000.

1. Property, Plant and Equipment - Governmental Activities

Governmental capital assets are those that are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds. These assets are capitalized at cost (or estimated historical cost for assets not purchased in recent years) within the governmental activities in the government-wide statement of net assets but are not reported in the fund financial statements.

Contributed capital assets are recorded at fair market value at the date received. The District does not possess any infrastructure. Historical costs for governmental activities capital asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

2. Depreciation

All capital assets are depreciated excluding land and construction in progress. Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Governmental Activities Estimated Lives (in years)
Land Improvements	25
Buildings and Improvements	25 – 100
Machinery and Equipment	5 - 20
Vehicles	5

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

Obligation	Fund
Energy Conservation Notes	General Fund
Capital Leases Payable	General Fund
Compensated Absences	General Fund, Food Services Fund, and Latchkey Fund

K. Compensated Absences

In accordance with GASB Statement No. 16, “*Accounting for Compensated Absences*,” vacation benefits are accrued as a liability when an employee’s right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee’s wage rates at fiscal year end, taking into consideration any limits specified in the School District’s termination policy. For governmental funds, the School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for classified employees after 20 years of current service with the School District and for certified employees and administrators after 20 years of service.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

For governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the fund financial statements. In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

L. 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.

M. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

N. Interfund Activity

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

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a textbook and instructional materials reserve. Cash with fiscal agent represents cash and cash equivalents restricted in use for the retirement of matured bonds and interest payable as well as for the purchase of bricks for a memorial courtyard. Fund balance reserves have been established for these amounts.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for property taxes, endowments, supplies inventory, textbook and instructional materials, restricted donations and encumbered amounts which have not been accrued at year end. 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 textbook and instructional materials is required by State statute.

Q. Estimates

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District had no extraordinary or special items during fiscal year 2006.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2006 of \$159,429 in the Food Service Fund, \$21,655 in the Latchkey Fund, \$1,217 in the Freshman Solutions Fund, \$1,545 in the Immigrant Fund, \$32,249 in the Chapter I Fund, \$8,375 in the Preschool Grant Fund and \$25,018 in the Class Size Reduction Fund (special revenue) arose from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. A deficit does not exist under the budgetary basis of accounting.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the District's deposits was \$3,825,511 and the bank balance was \$4,344,511. Federal depository insurance covered \$300,000 of the bank balance and \$4,044,511 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	\$4,044,511
Total Balance	\$4,044,511

B. Investments

The District's investments at June 30, 2006 were as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities (in Years)</u>		
			<u>less than 1</u>	<u>1-3</u>	<u>3-5</u>
Repurchase Agreements	\$10,490,000	N/A	\$10,490,000	\$0	\$0
US Treasury Notes/Bills	1,010,680	N/A	467,569	543,111	0
FNMA	2,096,726	AAA ^{1,2}	1,057,981	1,038,745	0
FHLB	959,294	AAA ^{1,2}	408,693	550,601	0
FHLM	2,317,413	AAA ^{1,2}	1,552,462	764,951	0
Total Investments	\$16,874,113		\$13,976,705	\$2,897,408	\$0

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments (Continued)

¹ Standard & Poor's

² Moody's Investor Service

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in one issuer. Of the District's total investments, 6% are United States Treasury Notes, 62% are repurchase agreements, 12% are FNMA, 6% are FHLB, and 14% are FHLM.

Custodial Credit Risk – For an investment, 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 investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$14,315,511	\$6,384,113
Investments:		
Repurchase Agreements	(10,490,000)	10,490,000
Per GASB Statement No. 3	\$3,825,511	\$16,874,113

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$729,311, which includes \$44,980 assigned from other District funds.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 4 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2006 were levied after October 1, 2005 on 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. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2002, and equalization adjustments were made in 2005. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Huber Heights City School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed value upon which the fiscal year 2006 receipts were based are:

Agricultural/Residential and Other Real Estate	\$702,638,290
Public Utility Personal	13,633,980
Tangible Personal Property	<u>41,794,305</u>
Total Assessed Value	<u><u>\$758,066,575</u></u>
Tax rate per \$1,000 of assessed valuation	\$63.06

HUBER HEIGHTS CITY SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 5 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts, interest and intergovernmental receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of Federal funds. A summary of intergovernmental receivables follows:

Fund	Amount
Title VI-B Fund	\$502,256
Freshman Solutions Fund	10,000
Immigrant Fund	10,941
Chapter I Fund	133,640
Title VI Fund	2,101
Drug Free School Grant Fund	2,754
Preschool Grant Fund	7,479
Class Size Reduction Fund	50,727
Federal Grants Fund	8,753
	\$728,651

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Following is a summary of interfund receivables and payables for all funds at June 30, 2006:

Fund	Interfund Loan Receivables	Interfund Loan Payables
General Fund	\$448,784	\$0
Other Governmental Funds	0	448,784
Totals	\$448,784	\$448,784

These Interfund Loans are short-term loans to cover a temporary cash deficit.

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds for the fiscal year 2006:

Fund	Transfer In	Transfer Out
General Fund	\$92,471	\$6,265
Other Governmental Funds	6,265	92,471
Total All Funds	\$98,736	\$98,736

Transfers from other governmental funds to the General Fund were to close out grants. Transfers from the General Fund to other governmental funds were to provide operating funds to the latchkey program and the District's share of grant programs.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 8 - CAPITAL ASSETS

Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at June 30, 2006:

Historical Cost:

<u>Class</u>	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
<i>Capital assets not being depreciated:</i>				
Land	\$978,013	\$0	\$0	\$978,013
<i>Capital assets being depreciated:</i>				
Land Improvements	1,013,224	38,421	0	1,051,645
Buildings and Improvements	24,312,348	1,187,864	0	25,500,212
Machinery and Equipment	3,866,112	0	(34,704)	3,831,408
Vehicles	2,869,444	358,845	(198,900)	3,029,389
Total Cost	<u>\$33,039,141</u>	<u>\$1,585,130</u>	<u>(\$233,604)</u>	<u>\$34,390,667</u>

Accumulated Depreciation:

<u>Class</u>	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Land Improvements	(\$909,035)	(\$1,165)	\$0	(\$910,200)
Buildings and Improvements	(10,057,771)	(460,851)	0	(10,518,622)
Machinery and Equipment	(2,410,536)	(176,019)	31,234	(2,555,321)
Vehicles	(1,417,253)	(204,806)	179,010	(1,443,049)
Total Depreciation	<u>(\$14,794,595)</u>	<u>(\$842,841) *</u>	<u>\$210,244</u>	<u>(\$15,427,192)</u>
<i>Net Value:</i>	<u>\$18,244,546</u>			<u>\$18,963,475</u>

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$539,292
Support Services:	
Board of Education	223
Administration	76,136
Business	1,081
Operations & Maintenance of Plant	18,327
Pupil Transportation	194,370
Non-Instructional Services	
Food Service Operations	11,190
Extracurricular Activities	2,222
Total Depreciation Expense	<u>\$842,841</u>

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio 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 state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2005, (latest information available) 10.57% was allocated to fund the pension benefit and 3.43% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2006, 2005, and 2004 were \$1,088,160, \$1,116,438, and \$1,047,552, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. The portion of the 2005 employer contribution rate (latest information available) that was used to fund health care for the year 2005 was 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2006, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The amount contributed to fund health care benefits, including the surcharge amounted to \$386,005.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System of Ohio (SERS of Ohio) (Continued)

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ended June 30, 2005 were \$178,221,113. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090 or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2005, (latest information available) 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2006, 2005, and 2004 were \$3,900,744, \$4,141,296, and \$3,819,528, respectively, which were equal to the required contributions for each year.

STRS provides postemployment health care benefits to retirees who participated in the DB or Combined Plans and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, health care benefits are not guaranteed.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2005, (latest information available) the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$278,625 for the District. The balance of the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, the net health care costs paid by STRS were \$254,780,000. There were 115,395 eligible benefit recipients.

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HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in the notes, capital leases, and compensated absences of the District for the year ended June 30, 2006 is as follows:

		Balance			Balance	Amount Due
		June 30, 2005	Additions	Deductions	June 30, 2006	Within One Year
Governmental Activities:						
Energy Conservation Note:						
School Improvement - 4.86%	1996	\$283,650	\$0	(\$94,550)	\$189,100	\$94,550
School Improvement - 4.93%	1999	22,820	0	(22,820)	0	0
School Improvement - 4.58%	2005	303,650	0	(30,365)	273,285	30,365
		<u>610,120</u>	<u>0</u>	<u>(147,735)</u>	<u>462,385</u>	<u>124,915</u>
Capital Leases Payable		550,417	68,675	(173,887)	445,205	167,477
Compensated Absences		<u>2,512,254</u>	<u>2,210,577</u>	<u>(2,512,254)</u>	<u>2,210,577</u>	<u>214,355</u>
Total Other						
Long-Term Obligations		<u>\$3,672,791</u>	<u>\$2,279,252</u>	<u>(\$2,833,876)</u>	<u>\$3,118,167</u>	<u>\$506,747</u>

The original amounts of the long term notes payable of \$945,500, \$545,741 and \$303,650 were used to finance the cost of acquiring and installing energy conservation measures.

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2006 follows:

Years	Energy Conservation Notes		
	Principal	Interest	Total
2007	\$124,915	\$20,085	\$145,000
2008	124,915	14,037	138,952
2009	30,365	9,735	40,100
2010	30,365	8,344	38,709
2011	30,365	6,954	37,319
2012-2015	<u>121,460</u>	<u>13,907</u>	<u>135,367</u>
Totals	<u>\$462,385</u>	<u>\$73,062</u>	<u>\$535,447</u>

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 11 - CAPITALIZED LEASE

The District is obligated under several leases accounted for as capital leases. The cost of the leased assets is accounted for in the Governmental Activities Capital Assets and the related liability in the Governmental Activities Other Long-Term Obligations. The original cost of the assets under capital lease was \$999,293.

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2006:

Year Ending June 30,	Capital Lease
2007	\$ 184,634
2008	138,936
2009	114,704
2010	39,315
Minimum Lease Payments	477,589
Less: Amount representing interest at the District's incremental borrowing rate of interest	(32,384)
Present Value of minimum lease payments	\$445,205

NOTE 12 – STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2006, the reserve activity (cash-basis) was as follows:

	Textbook Reserve	Capital Acquisition Reserve	Total
Set-aside Cash Balance as of June 30, 2005	\$368,198	\$0	\$368,198
Current Year Set-Aside Requirement	976,048	976,048	1,952,096
Qualifying Disbursements	(832,755)	(2,818,283)	(3,651,038)
Total	\$511,491	(\$1,842,235)	(\$1,330,744)
Cash Balance Carried Forward to FY 2007	\$511,491	\$0	\$511,491
Amount Restricted for Textbooks			\$511,491

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, the extra amount for capital acquisition may not be used to reduce the set-aside requirements of future years. Negative amounts for capital acquisition are therefore not presented as being carried forward to the next fiscal year.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District contracted with Indiana Insurance Company for building and property insurance. This policy has a limit of insurance in the amount of \$81,308,700 for property. Property has a \$500 deductible. Both Vehicle and General liability insurance is under Indiana Insurance. The base policy has a \$1,000,000 per occurrence and a \$2,000,000 aggregate limit. An additional "umbrella" policy has \$10,000,000 per occurrence and \$10,000,000 aggregate limit. The superintendent, treasurer, messengers, athletic director and all principals are bonded.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Workers' compensation claims are covered through the District's participation in the State of Ohio's program. The District pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The District is a member of the Southwestern Ohio Educational Purchasing Council (SOEPC). The council contracts with Comp Management to provide an insurance purchasing pool for workers compensation. The intent of the pool is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the pool. The workers compensation experience of the participation school districts is calculated as one experience and a common premium rate is applied to all school districts in the pool. Each participant pays this rate. Total savings is then calculated and each participants individual performance is compared to the overall savings percentage of the pool. A participant will then either receive money from or be required to contribute to the pool. This equity pooling arrangement insures that each participant shares equally in the overall performance of the pool. Participation in the pool is limited to school districts that can meet the pool's selection criteria. Comp Management provides administrative cost control and actuarial services to the SOEPC.

The District has elected to provide employee medical benefits through United Health Care as part of an insurance purchasing pool through the SOEPC. The employees share the cost of the monthly premium with the board for single and family plans. The board pays 90 percent of the premium.

The District provides life insurance to employees through Great American Life Insurance.

NOTE 14 - JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Computer Association – The District is a member of the Metropolitan Dayton Educational Computer Association (MDECA), which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami, and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative instructional functions among member districts.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 14 - JOINTLY GOVERNED ORGANIZATION (Continued)

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member schools districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The District paid MDECA \$202,045 for services provided during the year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council – The District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC). The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations during the one year period. Payments to SOEPC are made from various funds. During fiscal year 2006, the District paid \$542,780 to SOEPC. To obtain financial information, write to Southwestern Ohio Educational Purchasing Council, Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Miami Valley Career Technical Center – The Miami Valley Career Technical Center is a district political subdivision of the State of Ohio operated under the direction of a Board consisting of seventeen members elected from twenty-seven participating school districts. The Board possesses its own budgeting and taxing authority.

Southwestern Ohio Instructional Technology Association (SOITA) - SOITA is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of SOITA is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members of those counties i.e. Auglaize, Butler, Champaign, Clark, Clifton, Darke, Fayette, Green, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Green, and Butler counties shall elect two representatives per area. All others shall elect one representative per area. All superintendents except for those from educational service centers vote on the representatives after a nomination committee nominates individuals to run. One at-large non-public representative shall be elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative shall be elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2006, the School District paid \$3,403 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association at 150 East Sixth Street, Franklin, Ohio 45005.

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 15 – INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan – The EPC Benefit Plan Trust (the Plan) is a group purchasing pool consisting of public school districts who are members of the Southwestern Ohio Educational Purchasing Cooperative. The purpose of a group purchasing pool is for members to pool funds or resources to purchase group insurance products to provide health benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the Trust fund for insurance coverage which is provided by Anthem Blue Cross or United Healthcare. Districts may also contribute monthly to the Trust fund for dental benefits provided through a self-funded dental plan administered by CoreSource. The Plan is governed by a Board of Trustees elected in accordance with the Trust Agreement and voted on by participating EPC member districts. In fiscal year 2006, The District contributed \$6,361,128, which represented 7.06 percent of total contributions to the Trust. Financial information can be obtained from Barbara Coriell, who serves as administrator, at EPC Benefits Office, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

NOTE 16 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state 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 adverse effect on the overall financial position of the District at June 30, 2006.

B. Litigation

The District is not a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2006.

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

Federal Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Award Receipts	Award Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education</i>				
Food Distribution Program	NN-N1	10.550	92,487	92,487
Nutritional Cluster:				
National School Breakfast Program	05-PU	10.553	46,160	46,160
National School Lunch Program	04-PU	10.555	449,620	449,620
Special Milk	02-PU	10.556	2,338	2,338
Summer Food Service Program	24-PU	10.559	<u>13,462</u>	<u>13,462</u>
Total Nutrition Cluster			<u>511,580</u>	<u>511,580</u>
Total U.S. Department of Agriculture			<u>604,067</u>	<u>604,067</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education</i>				
Title I Grant	C1-S1	84.010	244,205	333,682
Special Education Cluster:				
Title VI-B Grant	6B-SF	84.027	1,076,154	1,477,949
Preschool Disabilities Grant	PG-S1	84.173	<u>49,520</u>	<u>57,697</u>
Total Special Education Cluster			<u>1,125,674</u>	<u>1,535,646</u>
Drug Free Schools and Communities	DR-S1	84.186	17,885	17,885
Title VI - Innovative Education Grant	C2-S1	84.298	2,128	3,923
Title II-D - Technology	TJ-S1	84.318	609	-
Title III - Immigrant	T3-S2	84.365	41,498	48,981
Improving Teacher Quality	TR-S1	84.367	170,301	139,012
Hurricane Relief	HR-01	84.938	3,000	3,000
High School Critical Transition	20-A0	84.048	<u>10,000</u>	<u>11,032</u>
Total Passed Through Ohio Department of Education			<u>1,615,300</u>	<u>2,093,161</u>
<i>Direct Programs</i>				
Impact Aid	*	84.041	75,739	75,739
Javits Gifted and Talented Students	*	84.206	7,777	-
Total U.S. Department of Education			<u>1,698,816</u>	<u>2,168,900</u>
TOTAL FEDERAL AWARD EXPENDITURES			\$ <u>2,302,883</u>	\$ <u>2,772,967</u>

* - Information unavailable

HUBER HEIGHTS CITY SCHOOL DISTRICT

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICES

The accompanying schedule of expenditures of federal awards is a summary activity of all federal awards programs of the Huber Heights City School District. The schedule has been prepared on the cash basis of accounting.

2. U.S. DEPARTMENT OF AGRICULTURE

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported on the schedule of expenditures of federal awards at the market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2006, the District had no significant food commodities in inventory.



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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*

Board of Education
Huber Heights City School District
5954 Longford Rd
Huber Heights, OH 45424

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Huber Heights City School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions on the 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District, in a separate letter dated February 23, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Education, 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
February 23, 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.

Board of Education
Huber Heights City School District
5954 Longford Rd
Huber Heights, OH 45424

Compliance

We have audited the compliance of Huber Heights City School 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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 on the District's compliance with those requirements.

In our opinion, the Huber Heights City School 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 District's 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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.

This report is intended solely for the information and use of the audit committee, management, Board of Education 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
February 23, 2007

HUBER HEIGHTS CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006

1. SUMMARY OF AUDITORS' 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 non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	<u>Nutrition Cluster:</u> CFDA 10.553 – National School Breakfast Program CFDA 10.555 – National School Lunch Program CFDA 10.556 – Special Milk CFDA 10.559 – Summer Food Service Program CFDA 84.010 – Title I Grant CFDA 84.367 – Improving Teacher Quality
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS RELATED TO THE DISTRICT'S FEDERAL AWARDS

None

HUBER HEIGHTS CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2006

None



Mary Taylor, CPA
Auditor of State

HUBER HEIGHTS CITY SCHOOL DISTRICT
MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 17, 2007