



Mary Taylor, CPA  
Auditor of State



**OAK HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Oak Hills Local School District  
Hamilton County  
6325 Rapid Run Road  
Cincinnati, Ohio 45233

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Oak Hills Local School District, Hamilton County, Ohio, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Expenditure Schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Federal Awards Expenditure Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Mary Taylor, CPA**  
Auditor of State

September 6, 2007

**OAK HILLS LOCAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

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

**Financial Highlights**

Key financial highlights for fiscal year 2006 are as follows:

- Net assets of governmental activities decreased \$974,771 which represents a 12.6% decrease from 2005.
- General revenues accounted for \$59,245,071 in revenue or 83.8% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$11,468,547 or 16.2% of total revenues of \$70,713,618.
- The District had \$71,688,389 in expenses related to governmental activities; only \$11,468,547 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$59,245,071 were also used to provide for these programs.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The *Government-wide Financial Statements* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. *Fund financial statements* provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The General Fund and the Debt Service Fund are the major funds of the District.

## **Government-wide Financial Statements**

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the overall financial position of the District is presented as Governmental Activities – All of the District's programs and services are reported as Governmental Activities including instruction, support services, operation of noninstructional services, extracurricular activities, and interest and fiscal charges.

## **Fund Financial Statements**

The analysis of the District's major funds are presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

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

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



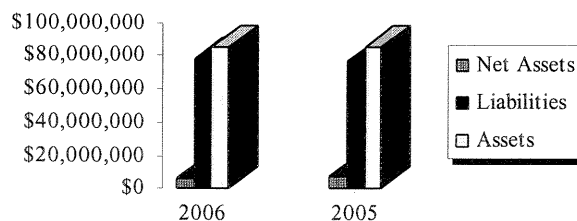
## The District as a Whole

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

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

Table 1  
Net Assets

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current Assets	\$62,390,870	\$61,226,668
Capital Assets	22,821,692	23,535,181
<b>Total Assets</b>	<b>85,212,562</b>	<b>84,761,849</b>
<b>Liabilities</b>		
Long-Term Liabilities	52,412,774	54,075,348
Other Liabilities	26,036,681	22,948,623
<b>Total Liabilities</b>	<b>78,449,455</b>	<b>77,023,971</b>
<b>Net Assets</b>		
<b>Invested in Capital</b>		
Assets Net of Debt	1,625,953	1,556,634
Restricted	3,531,482	4,341,575
Unrestricted	1,605,672	1,839,669
<b>Total Net Assets</b>	<b>\$6,763,107</b>	<b>\$7,737,878</b>



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$6,763,107. The District's financial position as it relates to net assets decreased 12.6%.

At year end, capital assets represented 26.8% of total assets. Capital assets include land, buildings and improvements, and furniture and equipment. Net assets invested in capital assets, net of related debt to acquire the assets at June 30, 2006 were \$1,625,953. These net assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$3,531,482 represents resources that are subject to external restriction on how they may be used.

Total assets remained relatively consistent in 2006 compared to 2005. Long-term Liabilities decreased due to the District making regularly scheduled debt service payments on their General Obligation Bonds. Other Liabilities increased mainly due to the increase in unearned revenue. Unearned revenue increased due to the large fluctuation in the amount of taxes available for advance provided by the county auditor.

Table 2 shows the change in net assets for fiscal year 2006 compared to 2005.

Table 2  
Changes in Net Assets

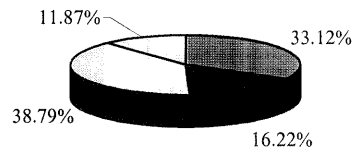
	Governmental Activities	
	2006	2005
Revenues		
Program Revenues:		
Charges for Services	\$4,882,050	\$4,616,577
Operating Grants	6,501,819	6,618,926
Capital Grants	84,678	189,759
General Revenue:		
Property Taxes	27,426,835	32,030,310
Grants and Entitlements	23,421,326	23,205,923
Other	8,396,910	7,101,659
Total Revenues	<u>70,713,618</u>	<u>73,763,154</u>
Program Expenses:		
Instruction	37,076,952	36,534,799
Support Services:		
Pupil and Instructional Staff	8,634,189	7,330,720
General and School Administrative, Fiscal and Business	6,042,414	5,931,108
Operations and Maintenance	7,210,041	5,799,708
Pupil Transportation	2,344,523	2,266,917
Central	490,215	1,135,384
Operation of Non-Instructional Services	4,788,651	4,645,245
Extracurricular Activities	1,651,206	1,423,258
Interest and Fiscal Charges	3,450,198	4,464,002
Total Expenses	<u>71,688,389</u>	<u>69,531,141</u>
Change in Net Assets	(974,771)	4,232,013
Beginning Net Assets	<u>7,737,878</u>	<u>3,505,865</u>
Ending Net Assets	<u>\$6,763,107</u>	<u>\$7,737,878</u>

The District revenues are mainly from two sources. Property taxes levied for general purposes and debt service and grants and entitlements comprised 72% of the District's revenues for governmental activities.

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

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 39% of revenue for governmental activities for the District in fiscal year 2006.

Revenue Sources	2006	Percent of Total
General Grants	\$23,421,326	33.12%
Program Revenues	11,468,547	16.22%
General Tax Revenues	27,426,835	38.79%
Other Revenues	8,396,910	11.87%
	<u>\$70,713,618</u>	<u>100.00%</u>



Instruction comprises 51.7% of governmental program expenses. Support services expenses were 34.5% of governmental program expenses. All other expenses and interest expense was 13.8%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

General Revenues decreased largely due to the decrease in the amount of taxes revenue received. This was due to the large fluctuation in the amount of taxes available for advance provided by the county auditor. Other revenues increased mainly due to an increase in investment earnings which was a result of the District experiencing a higher return on their investments. Pupil and Instructional staff expenses increased due to a reclassification for technology purchases that were previously coded to Central expenses, which explains the decrease in Central expenses. Pupil and Instructional staff expenses also increased due to an increase in technology expenses in 2006 as compared to 2005.

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by tax revenue and unrestricted State entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005 Restated
Instruction	\$37,076,952	\$36,534,799	(\$32,990,937)	(\$32,826,628)
Support Services:				
Pupil and Instructional Staff	8,634,189	7,330,720	(7,273,734)	(5,838,887)
General and School Administrative, Fiscal and Business	6,042,414	5,931,108	(5,852,234)	(5,756,340)
Operations and Maintenance	7,210,041	5,799,708	(7,192,603)	(5,790,782)
Pupil Transportation	2,344,523	2,266,917	(2,004,330)	(2,100,257)
Central	490,215	1,135,384	(473,965)	(1,085,440)
Operation of Non-Instructional Services	4,788,651	4,645,245	(456,396)	257,400
Extracurricular Activities	1,651,206	1,423,258	(525,445)	(500,943)
Interest and Fiscal Charges	3,450,198	4,464,002	(3,450,198)	(4,464,002)
Total Expenses	<u>\$71,688,389</u>	<u>\$69,531,141</u>	<u>(\$60,219,842)</u>	<u>(\$58,105,879)</u>

### The District's Funds

The District has two major governmental funds: the General Fund and Debt Service Fund. Assets of the General Fund comprised \$54,431,305 (88%) and the Debt Service Fund comprised \$6,101,753 (10%) of the total \$62,049,974 governmental funds assets.

**General Fund:** Fund balance at June 30, 2006 was \$31,353,823 including \$21,178,009 of unreserved balance. The primary reason for the decrease in fund balance was a decrease in taxes revenue.

**Debt Service Fund:** Fund balance at June 30, 2006 was \$3,447,891 including \$1,932,891 of unreserved balance. The fund balance is consistent from 2005 to 2006.

### General Fund Budgeting Highlights

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

The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$58,649,034, compared to original budget estimates of \$57,998,830. Of this \$650,204 difference, most was due to underestimating tax and intergovernmental revenues in the original budget.

The District's unobligated cash balance for the General Fund was \$1,292,010 above the final budgeted amount.

## Capital Assets and Debt Administration

### Capital Assets

At the end of fiscal 2006, the District had \$22,821,692 invested in land, buildings and improvements, and furniture and equipment. Table 4 shows fiscal 2006 balances compared to fiscal 2005:

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

	Governmental Activities	
	2006	2005
Land	\$978,200	\$2,148,500
Buildings and Improvements	20,646,808	19,771,375
Furniture and Equipment	<u>1,196,684</u>	<u>1,615,306</u>
Total Net Capital Assets	<u>\$22,821,692</u>	<u>\$23,535,181</u>

Total Net Capital Assets remained relatively consistent in 2006 as compared to 2005.

See Note 7 to the Basic Financial Statements for further details on the District's capital assets.

### Debt

At June 30, 2006, the District had \$49,665,993 in debt outstanding, \$1,943,265 due within one year. Table 5 summarizes total debt outstanding.

Table 5  
Outstanding Debt, at Year End

	Governmental Activities 2006	Governmental Activities 2005
Bonds and Notes Payable:		
Oak Hills Building Project I	\$200,000	\$300,000
Oak Hills Building Project II	9,310,000	10,385,000
Refunding Bonds:		
Current Interest Bonds –		
School Improvement	33,045,000	33,070,000
Capital Appreciation Bonds	3,023,684	2,919,986
Premium on Bonds	<u>2,065,309</u>	<u>2,168,574</u>
Subtotal Bonds	47,643,993	48,843,560
Loan Payable:		
Rickenbacker Port Authority	<u>2,022,000</u>	<u>2,331,000</u>
Subtotal Loan Payable	<u>2,022,000</u>	<u>2,331,000</u>
Total Outstanding Debt at Year End	<u>\$49,665,993</u>	<u>\$51,174,560</u>

See Note 8 to the Basic Financial Statements for further details on the District's obligations.

## **Economic Outlook**

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

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

Subsequent to year end, the District is in the process of converting 4.56 mills from its general fund into its permanent improvement fund. The transfer allows the District to get additional tax revenue when property values increase.

Management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

## **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ronda Johnson, Treasurer at Oak Hills Local School District, 6325 Rapid Run Road, Cincinnati, Ohio 45233. Or E-mail at [Johnson\\_R2@oakhills.hccanet.org](mailto:Johnson_R2@oakhills.hccanet.org).

Oak Hills Local School District  
Statement of Net Assets  
June 30, 2006

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$32,147,061
Restricted Cash and Investments	380,716
Receivables:	
Taxes	29,447,256
Accounts	18,197
Intergovernmental	37,343
Deferred Bond Issuance Costs	360,297
Nondepreciable Capital Assets	978,200
Depreciable Capital Assets, Net	<u>21,843,492</u>
 Total Assets	 <u>85,212,562</u>
Liabilities:	
Accounts Payable	258,121
Accrued Wages and Benefits	6,925,716
Accrued Interest Payable	1,293,945
Unearned Revenue	17,558,899
Long-Term Liabilities:	
Due Within One Year	2,757,956
Due In More Than One Year	<u>49,654,818</u>
 Total Liabilities	 <u>78,449,455</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	1,625,953
Restricted for:	
Special Revenue	737,833
Debt Service	2,297,808
Capital Projects	115,125
Set-Aside	380,716
Unrestricted	<u>1,605,672</u>
 Total Net Assets	 <u><u>\$6,763,107</u></u>

See accompanying notes to the basic financial statements.

Oak Hills Local School District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Asset:
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$30,037,472	\$1,118,725	\$175,541	\$0	(\$28,743,206)
Special	6,841,000	100	2,673,929	0	(4,166,971)
Vocational	5,051	0	6,895	0	1,844
Other	193,429	29,440	81,385	0	(82,604)
Support Services:					
Pupil	4,408,818	412,093	174,551	0	(3,822,174)
Instructional Staff	4,225,371	560	773,251	0	(3,451,560)
General Administration	146,551	0	0	0	(146,551)
School Administration	4,592,471	0	190,180	0	(4,402,291)
Fiscal	1,051,142	0	0	0	(1,051,142)
Business	252,250	0	0	0	(252,250)
Operations and Maintenance	7,210,041	8,638	8,800	0	(7,192,603)
Pupil Transportation	2,344,523	59,866	204,049	76,278	(2,004,330)
Central	490,215	16,078	172	0	(473,965)
Operation of Non-Instructional Services	4,788,651	2,119,189	2,213,066	0	(456,396)
Extracurricular Activities	1,651,206	1,117,361	0	8,400	(525,445)
Interest and Fiscal Charges	3,450,198	0	0	0	(3,450,198)
Totals	<u>\$71,688,389</u>	<u>\$4,882,050</u>	<u>\$6,501,819</u>	<u>\$84,678</u>	<u>(\$60,219,842)</u>

General Revenues:

Property Taxes Levied for:

General Purposes	23,708,236
Debt Service Purposes	3,718,599
Grants and Entitlements not Restricted to Specific Programs	23,421,326
Payment in Lieu of Taxes	6,482,374
Unrestricted Contributions	326,782
Investment Earnings	1,165,363
Other Revenues	422,391

Total General Revenues 59,245,071

Change in Net Assets (974,771)

Net Assets Beginning of Year 7,737,878

Net Assets End of Year \$6,763,107

See accompanying notes to the basic financial statements.



Oak Hills Local School District  
Balance Sheet  
Governmental Funds  
June 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Investments	\$28,744,161	\$1,932,891	\$1,470,009	\$32,147,061
Restricted Cash and Investments	380,716	0	0	380,716
<b>Receivables:</b>				
Taxes	25,278,394	4,168,862	0	29,447,256
Accounts	8,633	0	9,564	18,197
Intergovernmental	0	0	37,343	37,343
Interfund	19,401	0	0	19,401
<b>Total Assets</b>	<b>54,431,305</b>	<b>6,101,753</b>	<b>1,516,916</b>	<b>62,049,974</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts Payable	230,001	0	28,120	258,121
Accrued Wages and Benefits	6,431,524	0	494,192	6,925,716
Compensated Absences	447,563	0	0	447,563
Interfund Payable	0	0	19,401	19,401
Deferred Revenue	15,968,394	2,653,862	10,128	18,632,384
<b>Total Liabilities</b>	<b>23,077,482</b>	<b>2,653,862</b>	<b>551,841</b>	<b>26,283,185</b>
<b>Fund Balances:</b>				
Reserved for Encumbrances	485,098	0	142,327	627,425
Reserved for Property Tax Advances	9,310,000	1,515,000	0	10,825,000
Reserved for Set-Aside	380,716	0	0	380,716
<b>Unreserved, Undesignated, Reported in:</b>				
General Fund	21,178,009	0	0	21,178,009
Special Revenue Funds	0	0	707,623	707,623
Debt Service Funds	0	1,932,891	0	1,932,891
Capital Projects Funds	0	0	115,125	115,125
<b>Total Fund Balances</b>	<b>31,353,823</b>	<b>3,447,891</b>	<b>965,075</b>	<b>35,766,789</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$54,431,305</b>	<b>\$6,101,753</b>	<b>\$1,516,916</b>	<b>\$62,049,974</b>

See accompanying notes to the basic financial statements.

Oak Hills Local School District  
 Reconciliation of Total Governmental Fund Balance to  
 Net Assets of Governmental Activities  
 June 30, 2006

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Total Governmental Fund Balance		\$35,766,789
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		22,821,692
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	1,063,357	
Intergovernmental	<u>10,128</u>	
		1,073,485
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(1,293,945)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(2,299,218)</u>	
		(2,299,218)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		360,297
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(49,665,993)</u>
Net Assets of Governmental Activities		<u><u>\$6,763,107</u></u>

See accompanying notes to the basic financial statements.

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

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$24,058,004	\$3,745,888	\$0	\$27,803,892
Tuition and Fees	1,191,030	0	162,378	1,353,408
Investment Earnings	1,153,222	0	12,140	1,165,362
Intergovernmental	25,179,121	458,095	4,957,149	30,594,365
Extracurricular Activities	216,591	0	1,167,353	1,383,944
Charges for Services	0	0	2,119,189	2,119,189
Payment in Lieu of Taxes	6,482,374	0	0	6,482,374
Other Revenues	319,438	0	278,057	597,495
<b>Total Revenues</b>	<b>58,599,780</b>	<b>4,203,983</b>	<b>8,696,266</b>	<b>71,500,029</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	30,194,318	0	299,827	30,494,145
Special	5,944,534	0	1,017,110	6,961,644
Vocational	5,051	0	0	5,051
Other	193,429	0	0	193,429
<b>Support Services:</b>				
Pupil	3,535,824	0	906,562	4,442,386
Instructional Staff	3,477,859	0	711,826	4,189,685
General Administration	146,551	0	0	146,551
School Administration	4,305,369	0	187,757	4,493,126
Fiscal	999,997	48,486	0	1,048,483
Business	243,942	0	0	243,942
Operations and Maintenance	6,030,135	0	0	6,030,135
Pupil Transportation	2,099,642	0	0	2,099,642
Central	470,420	0	17,098	487,518
Operation of Non-Instructional Services	44,483	0	4,668,640	4,713,123
Extracurricular Activities	797,626	0	843,374	1,641,000
Capital Outlay	913,697	0	0	913,697
<b>Debt Service:</b>				
Principal Retirement	0	1,509,000	0	1,509,000
Interest and Fiscal Charges	0	2,365,343	0	2,365,343
<b>Total Expenditures</b>	<b>59,402,877</b>	<b>3,922,829</b>	<b>8,652,194</b>	<b>71,977,900</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(803,097)</b>	<b>281,154</b>	<b>44,072</b>	<b>(477,871)</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets	5,156	0	0	5,156
Transfers In	0	402,617	0	402,617
Transfers (Out)	(402,617)	0	0	(402,617)
<b>Total Other Financing Sources (Uses)</b>	<b>(397,461)</b>	<b>402,617</b>	<b>0</b>	<b>5,156</b>
<b>Net Change in Fund Balance</b>	<b>(1,200,558)</b>	<b>683,771</b>	<b>44,072</b>	<b>(472,715)</b>
<b>Fund Balance Beginning of Year</b>	<b>32,554,381</b>	<b>2,764,120</b>	<b>921,003</b>	<b>36,239,504</b>
<b>Fund Balance End of Year</b>	<b>\$31,353,823</b>	<b>\$3,447,891</b>	<b>\$965,075</b>	<b>\$35,766,789</b>

See accompanying notes to the basic financial statements.

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

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Net Change in Fund Balance - Total Governmental Funds (5472,715)

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

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	1,377,392	
Depreciation Expense	<u>(1,308,574)</u>	68,818

This amount is reported to reconcile the old appraisal report to the new appraisal report to correctly report capital assets (782,307)

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

Delinquent Property Taxes	(377,057)	
Intergovernmental	<u>(414,510)</u>	(791,567)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,509,000

Interest expense in the statement of activities differs from the amount reported in governmental funds for two reasons. Additional accrued interest was calculated for bonds and notes payable, and the difference arising from the advance refunding due to premium and bond issuance costs.

Accrued Interest	<u>(1,066,407)</u>	(1,066,407)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	578,855	
Amortization of Bond Issuance Cost	(18,015)	
Amortization of Bond Premium	103,265	
Bond Accretion	<u>(103,698)</u>	

560,407

Change in Net Assets of Governmental Activities (5974,771)

See accompanying notes to the basic financial statements.

Oak Hills Local School District  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

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	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$975,952	\$56,962
Receivables:		
Accounts	0	411
Total Assets	<u>975,952</u>	<u>\$57,373</u>
Liabilities:		
Other Liabilities	0	57,373
Total Liabilities	<u>0</u>	<u>\$57,373</u>
Net Assets:		
Held in Trust	<u>975,952</u>	
Total Net Assets	<u>\$975,952</u>	

See accompanying notes to the basic financial statements.

Oak Hills Local School District  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2006

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	Private Purpose Trust
Additions:	
Donations	\$49,931
Investment Earnings	29,828
Total Additions	<u>79,759</u>
Deductions:	
Scholarships	<u>92,955</u>
Total Deductions	<u>92,955</u>
Change in Net Assets	(13,196)
Net Assets Beginning of Year	<u>989,148</u>
Net Assets End of Year	<u><u>\$975,952</u></u>

See accompanying notes to the basic financial statements.

**OAK HILLS LOCAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2006**

**1. DESCRIPTION OF THE DISTRICT**

The Oak Hills Local School District (“the District”) represents a prior consolidation of three elementary districts: Bridgetown, Delhi and Springmyer. The consolidation was finalized by the Hamilton County Board of Education on April 23, 1956, in order to equalize educational opportunities throughout the area. Today, the District operates under current standards as prescribed by the Ohio State Board of Education, as provided in Division (D) of Section 3301.07 and Section 110.01 of the Ohio Revised Code.

The District operates under a locally elected five-member board form of government and provides educational services. The Board controls the District’s instructional programs and support facilities, staffed by 505 certificated teaching and administrative personnel and 360 non-certificated personnel. To provide services to the adult population in the community, Oak Hills has developed one of the largest community education programs in Hamilton County, Ohio.

The District is the third largest in Hamilton County and is 29<sup>th</sup> largest of all 614 districts in Ohio in terms of student enrollment, with 8,182 students for the 2005-06 school year. The District currently operates five (5) elementary schools (grades K-5), three (3) middle schools (grades 6-8), and one (1) comprehensive high school (grades 9-12).

**REPORTING ENTITY**

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

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

The District is associated with two organizations that are defined as jointly governed organizations. These organizations include Hamilton/Clermont Cooperative Association and Great Oaks Institute of Technology and Development. These organizations are presented in Note 14.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

### **MEASUREMENT FOCUS**

#### **Government-wide Financial Statements**

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

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

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

#### **Fund Financial Statements**

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

Fiduciary Funds are reported using the economic resources measurement focus.



## **FUND ACCOUNTING**

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

### **Governmental Funds**

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

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

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

### **Fiduciary Funds**

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

### 3. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

#### Revenues – Exchange and Non-exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

#### Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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

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

### Unearned Revenue

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

### Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

## **EQUITY IN POOLED CASH AND INVESTMENTS**

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

Investments are reported at fair value which is based on quoted market prices.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$1,153,222.

## **INVENTORY**

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

## CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000). In prior years, the capitalization threshold was one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Activities Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 years
Furniture and Equipment	5-20 years

## COMPENSATED ABSENCES

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

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

For governmental fund financial statements, the expenditures for unpaid compensated absences are recognized when due. The related liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

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

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not Eligible	25 days at the start of each contract year	5-20 days for each service year, depending on length of service
Maximum Accumulation	Not Applicable	37.5 days; can be paid for 5 days at year end	30 days
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	Paid upon termination	Paid upon termination
<u>Sick Leave</u>			
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	252 days	252 days	255 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per contract	Per contract	Per contract

**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.

**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.

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

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

## **FUND EQUITY**

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, budgetary set-asides and property tax advances. The reserve for property tax advances represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

## **ESTIMATES**

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

## **RESTRICTED ASSETS**

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A corresponding fund balance reserve has also been established.

## **4. EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

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

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

### Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, \$7,457,818 of the District's bank balance of \$7,657,818 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

### Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
Money Market Funds	\$56,027	0.00
STAR Ohio	4,763,170	0.00
Treasury Notes	1,467,072	2.47
Federal Home Loan Bank	5,967,596	0.62
Federal Home Loan Mortgage	8,589,215	0.87
Federal National Mortgage Association	<u>6,029,985</u>	1.03
Total Fair Value	<u>\$26,873,065</u>	
Portfolio Weighted Average Maturity		0.78

Interest rate risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. The District's investments in Treasury Notes, Federal Home Loan Bank, Federal Home Loan Mortgage, Federal National Mortgage Association and in the Money Market Funds were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's Investors Service. Investments in STAR Ohio were rated AAA by Standard& Poor's.



Concentration of credit risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested 1% of the District’s investments in Money Market Funds, 18% in STAR Ohio, 5% in Treasury Notes, 22% in Federal Home Loan Bank, 22% in Federal National Mortgage Association, and 32% in Federal Home Loan Mortgage.

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

## **5. PROPERTY TAXES**

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

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). In 2006, each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

The tangible personal property tax will phase out over a four-year period starting with tax year 2006 and ending with no tax due in 2009. This phase-out applies to most business and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing machinery and equipment first reportable on the 2006 and subsequent year returns is not subject to the personal property tax.

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2006. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2006 on the fund financial statements. The entire amount of delinquent taxes receivable is recognized as revenue in the government-wide financial statements. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006, was \$9,310,000 for General Fund and \$1,515,000 for Debt Service, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2006 operations.

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

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$1,210,984,240
Public Utility Personal	34,152,740
Tangible Personal Property	<u>19,407,128</u>
Total	<u>\$1,264,544,108</u>

## 6. RECEIVABLES

Receivables at June 30, 2006, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interfund. 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.

## 7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,148,500	\$143,000	\$1,313,300	\$978,200
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	33,622,158	2,018,274	0	35,640,432
Furniture and Equipment	<u>5,263,768</u>	<u>529,418</u>	<u>1,853,001</u>	<u>3,940,185</u>
Totals at Historical Cost	<u>\$41,034,426</u>	<u>\$2,690,692</u>	<u>\$3,166,301</u>	<u>\$40,558,817</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$13,850,783	\$1,142,841	\$0	\$14,993,624
Furniture and Equipment	<u>3,648,462</u>	<u>165,733</u>	<u>1,070,694</u>	<u>2,743,501</u>
Total Accumulated Depreciation	<u>17,499,245</u>	<u>1,308,574</u>	<u>1,070,694</u>	<u>17,737,125</u>
Governmental Activities Capital Assets, Net	<u>\$23,535,181</u>	<u>\$1,382,118</u>	<u>\$2,095,607</u>	<u>\$22,821,692</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$10,850
Support Services:	
Instructional Staff	21,145
School Administration	14,337
Operations and Maintenance	1,061,442
Pupil Transportation	136,583
Operation of Non-Instructional Services	64,217
Total Depreciation Expense	<u>\$1,308,574</u>

## 8. LONG-TERM LIABILITIES

	Interest Rate	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
<b>Governmental Activities:</b>						
General Obligation Bonds and Notes:						
Oak Hills Building Project I	5.59%	\$300,000	\$0	\$100,000	\$200,000	\$100,000
Oak Hills Building Project II	5.42%	10,385,000	0	1,075,000	9,310,000	1,250,000
Refunding Bonds:						
Current Interest Bonds -						
School Improvement	4.37%	33,070,000	0	25,000	33,045,000	175,000
Capital Appreciation Bonds	4.37%	2,919,986	103,698	0	3,023,684	0
Premium on Bonds 2005		2,168,574	0	103,265	2,065,309	103,265
Total General Obligation Bonds		48,843,560	103,698	1,303,265	47,643,993	1,628,265
Loan Payable		2,331,000	0	309,000	2,022,000	315,000
Total Long Term Debt		51,174,560	103,698	1,612,265	49,665,993	1,943,265
Compensated Absences		2,900,788	210,749	364,756	2,746,781	814,691
Total Governmental Activities		<u>\$54,075,348</u>	<u>\$314,447</u>	<u>\$1,977,021</u>	<u>\$52,412,774</u>	<u>\$2,757,956</u>

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

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

Fiscal Year Ending June 30	General Obligation Bonds			Loan Payable			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$1,628,265	\$2,174,276	\$3,802,541	\$315,000	\$63,694	\$378,694	\$0	\$0	\$0
2008	1,813,265	2,092,929	3,906,194	322,000	53,770	375,770	0	0	0
2009	2,018,265	1,983,163	4,001,428	330,000	43,628	373,628	0	0	0
2010	1,138,265	1,887,600	3,025,865	340,000	33,232	373,232	0	0	0
2011	1,278,265	1,823,043	3,101,308	351,000	22,522	373,522	0	0	0
2012-2016	3,341,313	9,305,130	12,646,443	364,000	11,466	375,466	4,170,000	0	4,170,000
2017-2021	12,826,327	6,291,575	19,117,902	0	0	0	0	0	0
2022-2026	19,326,327	2,508,750	21,835,077	0	0	0	0	0	0
Total	<u>\$43,370,292</u>	<u>\$28,066,466</u>	<u>\$71,436,758</u>	<u>\$2,022,000</u>	<u>\$228,312</u>	<u>\$2,250,312</u>	<u>\$4,170,000</u>	<u>\$0</u>	<u>\$4,170,000</u>

## 9. PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the District's financial statements. On June 30, 2006, \$37,187,868 of bonds outstanding are considered defeased.

## **10. LOAN PAYABLE**

During the fiscal year 2002, the District entered into a \$3,300,000 loan payable and reissued \$2,635,000 loan payable during fiscal year 2004 to the Rickenbacker Port Authority, Ohio, (the Port Authority). The District capitalized buildings related to the loan.

The loan document refers to the transaction as a lease-purchase agreement, but the substance of the transaction is in the nature of a loan. The loan was made by the Port Authority to the District as the result of the Port Authority's issuance of bonds, the proceeds of which were made available to numerous public school districts in Ohio to assist in the financing and re-financing of permanent improvements and was sponsored by the Ohio School Board Association Expanded Asset Pooled Financing Program.

## **11. PENSION PLANS**

### **SCHOOL EMPLOYEES RETIREMENT SYSTEM**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,241,016, \$1,184,832, and \$1,145,484, respectively; 48% has been contributed for fiscal year 2006 and 100% for fiscal year 2005 and 2004.

### **STATE TEACHERS RETIREMENT SYSTEM**

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004 were \$4,443,468, \$4,298,400, and \$4,114,752, respectively; 83% has been contributed for fiscal year 2006 and 100% for fiscal year 2005 and 2004.

## **12. POST EMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$317,391 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, School District paid \$304,049 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

### **13. CONTINGENT LIABILITIES**

#### **GRANTS**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

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

**LITIGATION**

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

**14. JOINTLY GOVERNED ORGANIZATIONS**

The Great Oaks Joint Vocational School (the School), a jointly governed organization, is a distinct political subdivision of the State of Ohio which operates under the direction of a Board consisting of one representative from each participating school district's elected board. The Board possesses its own budgeting and taxing authority. The Vocational School provides academic preparation and job training which leads to employment and/or further education upon graduation from high school. The District has no ongoing financial interest in or responsibility for the Vocational School.

The District is a participant in the Hamilton/Clermont Cooperative Association (HCCA) which is a computer consortium A-site used by the District. HCCA is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Board of the School consists of one representative from each of the participating members. The degree of control exercised by any participating district is limited to its representation on the board.

**15. 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 carries insurance coverage with the following companies.

<u>Coverage</u>	<u>Company</u>
Automobile	Indiana Insurance
Property	Indiana Insurance
General Liability	Indiana Insurance

Limits and deductible amounts for the above policies vary accordingly.

<u>Coverage</u>	<u>Limits</u>	<u>Deductible</u>
Automobile	\$1,000,000 each occurrence	\$1,000 collision
Property	\$105,423,192 blanket coverage	\$2,500 each loss
General Liability	\$2,000,000 general aggregate	
Umbrella	\$10,000,000 (transportation only)	



The District pays the State of Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**16. ACCOUNTABILITY**

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

<u>Fund</u>	<u>Deficit</u>
Special Revenue Fund:	
Special Education	\$72,495
Title I	23,097
IDEA Preschool Grant	121

**17. FUND BALANCE RESERVES FOR SET-ASIDES**

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2005	(\$798,964)	\$ 0	\$380,716
Current Year Set-aside Requirement	1,173,937	1,173,937	0
Qualified Disbursements	(1,912,951)	(1,523,031)	0
Current Year Offsets	<u>0</u>	<u>0</u>	<u>0</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$380,716</u>
Restricted Cash as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$380,716</u>
Carried Forward to FY 2007	<u>(\$1,537,978)</u>	<u>\$ 0</u>	<u>\$ 0</u>

Qualifying disbursements for capital activity during the year exceeded the amount required for the set-aside. Qualifying disbursements and carryover from prior years for textbooks totaled \$2,711,915, resulting in \$1,537,978 for carryover to offset textbook requirements in future years.

## 18. INTERFUND BALANCES/TRANSFERS

At fiscal year end, interfund transactions and interfund receivables and payables were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$19,401	\$0	\$0	\$402,617
Debt Service	0	0	402,617	0
Other Governmental Funds	<u>0</u>	<u>19,401</u>	<u>0</u>	<u>0</u>
Total all funds	<u>\$19,401</u>	<u>\$19,401</u>	<u>\$402,617</u>	<u>\$402,617</u>

Transfers out of the General Fund were made to provide resources to the Debt Service.

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

## 19. SUBSEQUENT EVENT

On January 8, 2007, the District unanimously approved a transfer of property tax revenue from the general fund to the permanent improvement fund.

The District will convert 4.56 mills from its general fund to its permanent improvement fund. The general fund includes day-to-day expenses, such as salaries, while the permanent improvement fund can be used for anything from roof and boilers to computers and textbooks.

The transfer, which must be approved by the county budget commission, allows the District to get additional tax revenue when property values increase.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$23,899,507	\$24,163,730	\$24,218,004	\$54,274
Tuition and Fees	1,172,133	1,185,091	1,187,753	2,662
Investment Earnings	1,153,242	1,165,992	1,168,611	2,619
Intergovernmental	24,847,984	25,122,694	25,179,121	56,427
Extracurricular Activities	213,516	215,876	216,361	485
Payment in Lieu of Taxes	6,397,123	6,476,840	6,482,374	5,534
Other Revenues	315,325	318,811	319,527	716
<b>Total Revenues</b>	<b>57,998,830</b>	<b>58,649,034</b>	<b>58,771,751</b>	<b>122,717</b>
Expenditures:				
Current:				
Instruction:				
Regular	30,532,664	30,685,674	30,096,406	589,268
Special	5,962,771	5,992,652	5,877,573	115,079
Vocational	5,124	5,150	5,051	99
Other	196,233	197,216	193,429	3,787
Support Services:				
Pupil	3,494,615	3,512,128	3,444,683	67,445
Instructional Staff	3,528,071	3,545,751	3,477,661	68,090
General Administration	145,576	146,306	143,496	2,810
School Administration	4,330,598	4,352,300	4,268,721	83,579
Fiscal	1,000,113	1,005,125	985,823	19,302
Business	243,721	244,943	240,239	4,704
Operations and Maintenance	6,171,401	6,202,327	6,083,222	119,105
Pupil Transportation	2,121,043	2,131,672	2,090,737	40,935
Central	564,631	567,460	556,563	10,897
Operation of Non-Instructional Services	45,635	45,864	44,983	881
Extracurricular Activities	808,316	812,367	796,767	15,600
Capital Outlay	999,794	1,004,805	985,509	19,296
<b>Total Expenditures</b>	<b>60,150,306</b>	<b>60,451,740</b>	<b>59,290,863</b>	<b>1,160,877</b>
Excess of Revenues Over (Under) Expenditures	(2,151,476)	(1,802,706)	(519,112)	1,283,594
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	5,088	5,144	5,156	12
Advances In	61,483	62,162	62,302	140
Advances (Out)	(19,682)	(19,781)	(19,401)	380
Transfers In	396	400	401	1
Transfers (Out)	(408,453)	(410,500)	(402,617)	7,883
<b>Total Other Financing Sources (Uses)</b>	<b>(361,168)</b>	<b>(362,575)</b>	<b>(354,159)</b>	<b>8,416</b>
<b>Net Change in Fund Balance</b>	<b>(2,512,644)</b>	<b>(2,165,281)</b>	<b>(873,271)</b>	<b>1,292,010</b>
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	29,283,044	29,283,044	29,283,044	0
<b>Fund Balance End of Year</b>	<b>\$26,770,400</b>	<b>\$27,117,763</b>	<b>\$28,409,773</b>	<b>\$1,292,010</b>

See accompanying notes to the required supplementary information.

**OAK HILLS LOCAL SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For The Year Ended June 30, 2006**

**1. BUDGETARY PROCESS**

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

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

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

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

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$1,200,558)
Net Adjustment for Revenue Accruals	234,674
Net Adjustment for Expenditure Accruals	807,712
Encumbrances	<u>(715,099)</u>
Budget Basis	<u>(\$873,271)</u>

**OAK HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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

<b>FEDERAL GRANTOR Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<b><i>Passed Through Ohio Department of Education</i></b>						
Food Distribution Program	05-PU	10.550		\$29,418		\$29,418
Child Nutrition Cluster:						
School Breakfast Program	05-PU	10.553	10,727		10,727	
National School Lunch Program	04-LLP	10.555	87,517		87,517	
Special Milk Program	02-PU	10.556	86,147		86,147	
			<hr/>		<hr/>	
Total Child Nutrition Cluster			184,391		184,391	
Total U.S. Department of Agriculture			<hr/> <b>184,391</b>	<hr/> <b>29,418</b>	<hr/> <b>184,391</b>	<hr/> <b>29,418</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<b><i>Passed Through Ohio Department of Education:</i></b>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SD & 6B-SF	84.027	2,007,874		1,939,168	
Special Education Preschool Grant	PG-S1	84.173	35,358		32,187	
			<hr/>		<hr/>	
Total Special Education Cluster			<hr/> <b>2,043,232</b>		<hr/> <b>1,971,355</b>	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1	84.010	306,181		278,510	
Vocational Education Basic Grants to States	N/A	84.048	15,222		26,821	
Safe and Drug Free Schools	DR-S1	84.186	38,467		28,443	
State Grants for Innovative Programs	C2-S1	84.298	30,608		32,246	
Education Technology State Grants	TJ-S1	84.318	4,662		5,451	
Improving Teacher Quality	TR-S1	84.367	222,993		202,305	
Hurricane Education Recovery	HR-01	84.938	18,043		3,128	
			<hr/>		<hr/>	
Total U.S. Department of Education			<hr/> <b>2,679,408</b>		<hr/> <b>2,548,259</b>	
<b><u>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</u></b>						
<b><i>Passed Through Ohio Department of Jobs &amp; Family Services</i></b>						
Medical Assistance Payments - Title XIX (Community Alternative Funding System)	N/A	93.778	180,428		180,428	
			<hr/>		<hr/>	
Total U.S. Department of Health & Human Services			<hr/> <b>180,428</b>		<hr/> <b>180,428</b>	
<b>Total</b>			<hr/> <b>\$3,044,227</b>	<hr/> <b>\$29,418</b>	<hr/> <b>\$2,913,078</b>	<hr/> <b>\$29,418</b>

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

**OAK HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

**NOTE D - MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.





# Mary Taylor, CPA

Auditor of State

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

Oak Hills Local School District  
Hamilton County  
6325 Rapid Run Road  
Cincinnati, Ohio 45233

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oak Hills Local School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

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

We noted certain matters that we reported to the District's management in a separate letter dated September 6, 2007.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242  
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### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated September 6, 2007.

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

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

**Mary Taylor, CPA**  
Auditor of State

September 6, 2007



# Mary Taylor, CPA

Auditor of State

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

Oak Hills Local School District  
Hamilton County  
6325 Rapid Run Road  
Cincinnati, Ohio 45233

To the Board of Education:

### Compliance

We have audited the compliance of Oak Hills Local School District, Hamilton County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 Oak Hills Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the federal program. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated September 6, 2007.

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



**Mary Taylor, CPA**  
Auditor of State

September 6, 2007

**OAK HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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

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

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

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

None.

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

None.





**Mary Taylor, CPA**  
Auditor of State

OAK HILLS LOCAL SCHOOL DISTRICT

HAMILTON COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
OCTOBER 2, 2007