

Patrick Henry Local School District

Henry County, Ohio

Regular Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
528 South West Street, P.O. Box 687  
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# Mary Taylor, CPA

Auditor of State

Board of Education  
Patrick Henry Local School District  
6900 State Rt. 18  
Hamler, Ohio 43524-9781

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 20, 2007

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**Patrick Henry Local School District**  
*Table of Contents*  
*For the Fiscal Year Ended June 30, 2006*

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<u>Title</u>	<u>Page</u>
Independent Auditor's Report .....	1 - 2
Management's Discussion and Analysis .....	3 - 8
Basic Financial Statements:	
Government – Wide Financial Statements:	
Statement of Net Assets .....	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	11
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities .....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	13
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund.....	15
Statement of Fiduciary Net Assets – Fiduciary Funds .....	16
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund.....	17
Notes to the Basic Financial Statements.....	18 - 40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government</i> <i>Auditing Standards</i> .....	41 – 42
Schedule of Findings and Responses.....	43

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Independent Auditor's Report**

Members of the Board  
Patrick Henry Local School District  
6900 State Route 18  
Hamler, Ohio 43524

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Patrick Henry Local School District (the District), Henry County, Ohio, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Patrick Henry Local School District  
Independent Auditor's Report  
Page 2

As described in Note 22, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

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

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

**Patrick Henry Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

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

**Financial Highlights**

Key financial highlights for fiscal year 2006 are as follows:

In total, net assets increased \$396,228.

General revenues accounted for \$9,309,864, or 86 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants accounted for \$1,532,702 or 14 percent of total revenues of \$10,842,566.

The District's major funds include the General Fund. The General Fund had \$8,923,887 in revenues and \$8,807,782 in expenditures and other financing uses. The General Fund's balance increased \$116,105 from the prior fiscal year.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund is the only major fund.

**Reporting the District as a Whole**

**Statement of Net Assets and Statement of Activities**

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.



**Patrick Henry Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

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In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental fund is the General Fund. While the District uses many funds to account for its financial transactions, this is the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using 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 determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**Patrick Henry Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

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**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2006.

**Table 1**  
**Net Assets**  
**Governmental Activities**

	<b>2006</b>	<b>2005</b>
<b><u>Assets:</u></b>		
Current and Other Assets	\$7,911,305	\$9,259,268
Capital Assets, Net	14,937,869	14,121,816
Total Assets	<u>22,849,174</u>	<u>23,381,084</u>
<b><u>Liabilities:</u></b>		
Current and Other Liabilities	5,557,906	6,370,778
Long-Term Liabilities	5,989,852	6,105,118
Total Liabilities	<u>11,547,758</u>	<u>12,475,896</u>
<b><u>Net Assets:</u></b>		
Invested in Capital Assets, Net of Related Debt	9,649,384	8,648,305
Restricted	1,182,780	1,846,728
Unrestricted	469,252	410,155
Total	<u>\$11,301,416</u>	<u>\$10,905,188</u>

The decrease in current assets was due to payments made on construction contracts. The increase in capital assets and net assets was due to the completion of the construction contracts.

**Patrick Henry Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

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Table 2 shows the highlights of the District's revenues and expenses.

**Table 2**  
**Change in Net Assets**  
**Governmental Activities**

	2006	2005
<b><u>Revenues:</u></b>		
Program Revenues:		
Charges for Services and Sales	\$899,962	\$480,733
Operating Grants, Contributions and Interest	534,400	602,121
Capital Grants and Contributions	98,340	558,798
Total Program Revenues	1,532,702	1,641,652
General Revenues:		
Property Taxes	3,066,499	2,845,919
Income Taxes	1,653,304	1,554,391
Grants and Entitlements	4,416,195	3,386,687
Investment Earnings	74,332	86,897
Miscellaneous	99,534	138,159
Total General Revenues	9,309,864	8,012,053
Total Revenues	10,842,566	9,653,705
 <b><u>Expenses:</u></b>		
Instruction	5,600,582	4,034,876
Support Services:		
Pupils	450,466	463,471
Instructional Staff	500,808	472,038
Board of Education	38,016	32,427
Administration	952,570	876,797
Fiscal	318,637	306,593
Business	124,552	101,046
Operation and Maintenance of Plant	766,777	893,321
Pupil Transportation	586,069	507,998
Central	193,104	193,317
Non-Instructional	377,549	408,892
Extracurricular Activities	504,006	433,282
Interest and Fiscal Charges	33,202	139,262
Total Expenses	10,446,338	8,863,320
Increase in Net Assets	\$396,228	\$790,385

**Patrick Henry Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3**  
**Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
Instruction	\$5,600,582	\$4,880,996	\$4,034,876	\$2,996,164
Support Services:				
Pupils	450,466	446,701	463,471	455,651
Instructional Staff	500,808	493,891	472,038	446,014
Board of Education	38,016	38,016	32,427	32,427
Administration	952,570	859,196	876,797	822,979
Fiscal	318,637	318,637	306,593	306,593
Business	124,552	124,552	101,046	101,046
Operation and Maintenance of Plant	766,777	679,573	893,321	893,321
Pupil Transportation	586,069	586,069	507,998	507,998
Central	193,104	181,104	193,317	181,317
Non-Instructional	377,549	(21,791)	408,892	30,312
Extracurricular Activities	504,006	293,490	433,282	308,584
Interest and Fiscal Charges	33,202	33,202	139,262	139,262
Total Expenses	<u>\$10,446,338</u>	<u>\$8,913,636</u>	<u>\$8,863,320</u>	<u>\$7,221,668</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 87 percent of instruction activities is supported through taxes and other general revenues. For all governmental activities, support from general revenues is 85 percent. The remaining 15 percent is derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues of \$10,755,781 and expenditures of \$11,377,657. The net negative change of \$621,876 in fund balance for the year indicates that the District was not able to meet current costs with current revenues.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the District amended its General Fund budget as needed.

Final expenditures and other financing uses were budgeted at \$9,342,699 while actual expenditures and other financing uses were \$9,007,013. The \$335,686 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

**Patrick Henry Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
(Unaudited)

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**Capital Assets and Debt Administration**

Capital Assets

At the end of fiscal year 2006, the District had \$14,937,869 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see Note 8 of the notes to the basic financial statements.

Debt

At June 30, 2006, the District had \$4,918,485 in school improvement general obligation bonds for construction and building improvements. The bonds were issued in the amount of \$5,101,000 for a twenty-eight year period, with final maturity on December 1, 2030. The bonds are being retired through the Bond Retirement Debt Service Fund. The District also has \$60,000 owed on a \$500,000 energy conservation note that will mature on December 1, 2006 and General Obligation notes outstanding of \$310,000, which matures during fiscal year 2016.

At June 30, 2006, the District's overall legal debt margin was \$3,706,607, with an un-voted debt margin of \$95,834.

For further information regarding the District's debt, see Note 13 of the notes to the basic financial statements.

**Current Issues**

The District is a consolidation of the small rural villages of Deshler, Hamler and Malinta in Northwest Ohio. The population of each is as follows: Deshler (1831), Hamler (650), and Malinta (285). Between them, they have a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 45.6 percent of District revenue sources are from local funds, 48.7 percent is from state funds, and the remaining 5.7 percent is from federal funds. The total expenditure per pupil was calculated at \$10,998.54.

Over the past five years, the District has been deficit spending. In May 1997, the District passed a five-year income tax levy and reduced the renewable millage from 7 mills to 2.45 mills. The District passed an additional three-year 5.9 mill operating levy at the November 2004 election. This levy provides a source of funds for the financial operations and stability of the District. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, the reduction of personal property for business inventory, as well as declining student enrollment.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Thomas Taylor, Treasurer, Patrick Henry Local School District, 6900 State Route 18, Hamler, Ohio 43524.

**Patrick Henry Local School District**  
*Statement of Net Assets*  
*June 30, 2006*

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,163,989
Restricted Cash and Cash Equivalents	23,745
Materials and Supplies Inventory	10,072
Accrued Interest Receivable	5,603
Accounts Receivable	110
Intergovernmental Receivable	60,134
Taxes Receivable	4,994,954
Income Taxes Receivable	652,698
Capital Assets:	
Non-Depreciable Capital Assets	592,870
Depreciable Capital Assets, net	14,344,999
Total Assets	22,849,174
<b>LIABILITIES:</b>	
Accounts Payable	3,039
Accrued Wages and Benefits	806,796
Intergovernmental Payable	198,523
Matured Compensated Absences Payable	41,298
Deferred Revenue	4,508,250
Long-Term Liabilities:	
Due Within One Year	236,000
Due in More Than One Year	5,753,852
Total Liabilities	11,547,758
<b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Related Debt	9,649,384
Restricted for Debt Service	167,193
Restricted for Capital Outlay	577,492
Restricted for Other Purposes	414,350
Restricted for Set-asides	23,745
Unrestricted	469,252
Total Net Assets	\$11,301,416

See Accompanying Notes to the Basic Financial Statements

**Patrick Henry Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	<u>Program Revenues</u>			<u>Governmental Activities</u>	<u>Net(Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>		
Governmental Activities:					
Instruction:					
Regular	\$4,436,566	\$296,076	\$74,177	\$11,136	(\$4,055,177)
Special	795,381	0	337,397	0	(457,984)
Vocational	46,474	0	0	0	(46,474)
Other	322,161	0	800	0	(321,361)
Support Services:					
Pupils	450,466	0	3,765	0	(446,701)
Instructional Staff	500,808	0	6,917	0	(493,891)
Board of Education	38,016	0	0	0	(38,016)
Administration	952,570	93,374	0	0	(859,196)
Fiscal	318,637	0	0	0	(318,637)
Business	124,552	0	0	0	(124,552)
Operation and Maintenance of Plant	766,777	0	0	87,204	(679,573)
Pupil Transportation	586,069	0	0	0	(586,069)
Central	193,104	0	12,000	0	(181,104)
Operation of Non-Instructional Services	377,549	299,996	99,344	0	21,791
Extracurricular Activities	504,006	210,516	0	0	(293,490)
Debt Service:					
Interest and Fiscal Charges	33,202	0	0	0	(33,202)
<b>Totals</b>	<u>\$10,446,338</u>	<u>\$899,962</u>	<u>\$534,400</u>	<u>\$98,340</u>	<u>(8,913,636)</u>
Taxes:					
Property Taxes, Levied for General Purposes					2,563,810
Property Taxes, Levied for Capital Outlay					147,234
Property Taxes, Levied for Debt Service					308,590
Property Taxes, Levied for Other					46,865
Income Taxes					1,653,304
Grants and Entitlements not Restricted to Specific Programs					4,416,195
Investment Earnings					74,332
Miscellaneous					99,534
<b>Total General Revenues</b>					<u>9,309,864</u>
Change in Net Assets					396,228
Net Assets Beginning of Year					<u>10,905,188</u>
Net Assets End of Year					<u>\$11,301,416</u>

See Accompanying Notes to the Basic Financial Statements

**Patrick Henry Local School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2006*

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,109,895	\$1,054,094	\$2,163,989
Materials and Supplies Inventory	0	10,072	10,072
Accrued Interest Receivable	5,603	0	5,603
Accounts Receivable	110	0	110
Interfund Receivable	2,500	0	2,500
Intergovernmental Receivable	0	60,134	60,134
Taxes Receivable	4,444,194	550,760	4,994,954
Income Taxes Receivable	652,698	0	652,698
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	23,745		23,745
<b>Total Assets</b>	<u>6,238,745</u>	<u>1,675,060</u>	<u>7,913,805</u>
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	0	3,039	3,039
Accrued Wages and Benefits	776,277	30,519	806,796
Interfund Payable	0	2,500	2,500
Intergovernmental Payable	187,164	11,359	198,523
Matured Compensated Absences Payable	41,298	0	41,298
Deferred Revenue	4,228,914	539,494	4,768,408
	<u>5,233,653</u>	<u>586,911</u>	<u>5,820,564</u>
<b>Fund Balances</b>			
Reserved:			
Reserved for Encumbrances	124,259	21,870	146,129
Reserved for Property Taxes	337,269	69,111	406,380
Reserved for Budget Stabilization	23,745	0	23,745
Unreserved, Undesignated, Reported in:			
General Fund	519,819	0	519,819
Special Revenue Funds	0	333,776	333,776
Debt Service Funds	0	118,383	118,383
Capital Projects Funds	0	545,009	545,009
<b>Total Fund Balances</b>	<u>1,005,092</u>	<u>1,088,149</u>	<u>2,093,241</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$6,238,745</u>	<u>\$1,675,060</u>	<u>\$7,913,805</u>

See Accompanying Notes to the Basic Financial Statements



**Patrick Henry Local School District**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2006*

Total Governmental Fund Balances		\$2,093,241
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		14,937,869
Receivables that do not provide financial resources are not reported as revenues in governmental fund.		
Property Taxes	80,324	
Income Taxes	121,989	
Intergovernmental	57,845	
		260,158
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(4,918,485)	
Notes Payable	(370,000)	
Compensated Absences Payable	(701,367)	
		(5,989,852)
Net Assets of Governmental Activities		\$11,301,416

See Accompanying Notes to the Basic Financial Statements

**Patrick Henry Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
Property and Other Local Taxes	\$2,541,547	\$498,279	\$3,039,826
Income Tax	1,642,240	0	1,642,240
Intergovernmental	4,378,664	621,223	4,999,887
Interest	49,945	24,387	74,332
Tuition and Fees	296,076	0	296,076
Extracurricular Activities	0	303,890	303,890
Customer Sales and Services	0	299,996	299,996
Miscellaneous	15,415	84,119	99,534
Total Revenues	<u>8,923,887</u>	<u>1,831,894</u>	<u>10,755,781</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	3,949,530	38,812	3,988,342
Special	506,386	293,177	799,563
Vocational	44,387	0	44,387
Other	321,361	800	322,161
Support Services:			
Pupils	415,522	4,939	420,461
Instructional Staff	427,657	5,673	433,330
Board of Education	38,016	0	38,016
Administration	816,562	126,162	942,724
Fiscal	313,324	0	313,324
Business	123,563	0	123,563
Operation and Maintenance of Plant	825,121	115,883	941,004
Pupil Transportation	587,532	0	587,532
Central	174,729	12,000	186,729
Operation of Non-Instructional Services	0	384,147	384,147
Extracurricular Activities	201,864	293,822	495,686
Capital Outlay	0	1,138,460	1,138,460
Debt Service:			
Principal	0	214,000	214,000
Interest	0	4,228	4,228
Total Expenditures	<u>8,745,554</u>	<u>2,632,103</u>	<u>11,377,657</u>
Excess of Revenues Over (Under) Expenditures	<u>178,333</u>	<u>(800,209)</u>	<u>(621,876)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>			
Transfers In	0	62,228	62,228
Transfers Out	(62,228)	0	(62,228)
Total Other Financing Sources and Uses	<u>(62,228)</u>	<u>62,228</u>	<u>0</u>
Net Change in Fund Balances	116,105	(737,981)	(621,876)
Fund Balance (Deficit) at Beginning of Year	<u>888,987</u>	<u>1,826,130</u>	<u>2,715,117</u>
Fund Balance (Deficit) at End of Year	<u>\$1,005,092</u>	<u>\$1,088,149</u>	<u>\$2,093,241</u>

See Accompanying Notes to the Basic Financial Statements

**Patrick Henry Local School District**  
*Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to Statement Activities  
For the Fiscal Year Ended June 30, 2006*

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Net Change in Fund Balances - Total Governmental Funds (\$621,876)

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

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

Capital Outlay - Depreciable Capital Assets	1,480,521	
Depreciation	(664,468)	
		816,053

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

Intergovernmental	49,048	
Income Taxes	11,064	
Delinquent Property Taxes	26,673	
		86,785

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities. 214,000

Accretion of Capital Appreciation Bonds are not reported in the governmental funds. (28,974)

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

Compensated Absences Payable	(69,760)	
		(69,760)

Change in Net Assets of Governmental Activities		\$396,228
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See Accompanying Notes to the Basic Financial Statements

**Patrick Henry Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2006*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$2,338,966	\$2,338,966	\$2,478,151	\$139,185
Income Tax	1,560,098	1,560,098	1,598,324	38,226
Intergovernmental	4,261,894	4,261,894	4,378,664	116,770
Interest	30,994	30,994	47,581	16,587
Tuition and Fees	48,692	48,692	295,979	247,287
Miscellaneous	5,872	5,872	16,131	10,259
Total Revenues	<u>8,246,516</u>	<u>8,246,516</u>	<u>8,814,830</u>	<u>568,314</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	3,893,869	4,087,347	4,012,812	74,535
Special	537,722	559,105	507,443	51,662
Vocational	73,094	66,697	50,949	15,748
Other	58,524	349,691	323,361	26,330
Support Services:				
Pupils	348,493	347,044	416,604	(69,560)
Instructional Staff	395,596	415,026	462,242	(47,216)
Board of Education	31,454	50,086	53,471	(3,385)
Administration	801,372	861,155	851,185	9,970
Fiscal	305,455	316,995	309,621	7,374
Business	93,642	107,882	121,713	(13,831)
Operation and Maintenance of Plant	775,489	882,234	820,849	61,385
Pupil Transportation	529,575	576,680	593,593	(16,913)
Central	187,350	177,941	174,079	3,862
Extracurricular Activities	294,816	294,816	210,742	84,074
Total Expenditures	<u>8,326,451</u>	<u>9,092,699</u>	<u>8,908,664</u>	<u>184,035</u>
Excess of Revenues Over (Under) Expenditures	<u>(79,935)</u>	<u>(846,183)</u>	<u>(93,834)</u>	<u>752,349</u>
Other Financing Sources and Uses:				
Refund of Prior Year Expenditures	0	0	332	332
Advances In	65,155	65,155	16,284	(48,871)
Transfers Out	(75,000)	(164,697)	(62,228)	102,469
Advances Out	(175,000)	(75,000)	(12,655)	62,345
Refund of Prior Year Receipts	0	(10,303)	(23,466)	(13,163)
Total Other Financing Sources and Uses	<u>(184,845)</u>	<u>(184,845)</u>	<u>(81,733)</u>	<u>103,112</u>
Net Change in Fund Balances	(264,780)	(1,031,028)	(175,567)	855,461
Fund Balance (Deficit) at Beginning of Year	1,100,574	1,100,574	1,100,574	0
Prior Year Encumbrances Appropriated	<u>84,373</u>	<u>84,373</u>	<u>84,373</u>	<u>0</u>
Fund Balance (Deficit) at End of Year	<u>\$920,167</u>	<u>\$153,919</u>	<u>\$1,009,380</u>	<u>\$855,461</u>

See Accompanying Notes to the Basic Financial Statements

**Patrick Henry Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2006*

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	<b>Private Purpose Trust</b>	<b>Agency Fund</b>
<b>Assets</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$10,199	\$33,015
Total Assets	10,199	33,015
<b>Liabilities</b>		
Current Liabilities:		
Undistributed Monies	0	33,015
Total Liabilities	0	33,015
<b>Net Assets</b>		
Held in Trust for Scholarships	10,199	0
Total Net Assets	\$10,199	\$0

See Accompanying Notes to the Basic Financial Statements

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

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	<b>Private Purpose Trust</b>
<b>ADDITIONS:</b>	
Interest	\$30
Miscellaneous	<u>2,877</u>
Total Additions	<u>2,907</u>
<b>DEDUCTIONS:</b>	
Payments in Accordance with Trust Agreements	<u>2,807</u>
Total Deductions	<u>2,807</u>
Change in Net Assets	100
Net Assets Beginning of Year	<u>10,099</u>
Net Assets End of Year	<u><u>\$10,199</u></u>

See Accompanying Notes to the Basic Financial Statements

**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Patrick Henry Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Patrick Henry Local School District is a local school district as defined by §3311.22 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's seven instructional/support facilities staffed by 51 non-certified and 71 certified full-time teaching personnel who provide services to 1,088 students and other community members.

**The Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. This includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with six organizations, which are defined as jointly governed organizations, insurance pools, and a related organization. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northern Buckeye Education Council Employee Insurance Benefits Program, the Northern Buckeye Education Council Workers' Compensation Group Rating Plan, the Schools of the Ohio Risk Sharing Authority, and the Edwin Wood Memorial Library. These organizations are presented in Notes 15, 16, and 17 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Basis of Presentation (Continued)**

Government-Wide Financial Statements

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

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

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. 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.

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 General Fund is the District's only major governmental fund:

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 is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Fund Accounting (Continued)**

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 has two fiduciary funds: a private purpose trust used to account for college scholarship donations and an agency fund used to account for student activity programs.

**C. Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases 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. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Basis of Accounting (Continued)**

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

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

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

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the object level within the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the function level within the General Fund and the function and object level in all other funds are made by the Treasurer.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Budgetary Process (Continued)**

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the 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 amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment 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 fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

During fiscal year 2006, investments were limited to STAR Ohio. 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.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. During fiscal year 2006, interest revenue was credited in the amount of \$49,945 to the General Fund and \$24,387 to Other Governmental Funds.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**G. Restricted Assets**

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

**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Capital Assets**

All capital assets of the District are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is 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 capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years
Books	10 years

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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 liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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

For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

**K. 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. Net assets restricted for other purposes represents balances in special revenue funds which are restricted to use per grant agreements.

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

The District reports \$1,182,780 of restricted net assets on its statement of net assets, none of which is restricted by enabling legislation.

**L. Fund Balance Reserves and Designations**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, and budget stabilization.

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

**M. Interfund Transfers and Balances**

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities are eliminated on the government-wide statement of net assets.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Interfund Transfers and Balances (Continued)**

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. Interfund transfers within governmental activities are eliminated in the government-wide statement of activities.

**N. Estimates**

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

**O. Pass-Through Grants**

The Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

**P. Extraordinary and Special Items**

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

**3. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – 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 fund financial statements are the following:

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 (budget basis) rather than as a reservation of fund balance (GAAP basis).

**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**3. BUDGETARY BASIS OF ACCOUNTING (CONTINUED)**

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

<b>Net Change in Fund Balance</b>	
GAAP Basis	\$116,105
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received In Cash FY 2006	764,634
Accrued FY 2006, Not Yet Received in Cash	(897,157)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(1,066,722)
Accrued FY 2006, Not Yet Paid in Cash	1,028,205
Advances Net	3,629
Encumbrances Outstanding at Year End (Budget Basis)	(124,261)
Budget Basis	(\$175,567)

**4. DEPOSITS AND INVESTMENTS**

Statement No. 3 of the Government Accounting Standards Board requires government entities to categorize deposits and investments to give an indication of the level of risk assumed by the entity at year-end. These categories of risk follow:

	<b>Cash</b>	<b>Investments</b>
Category 1	Deposits that are either insured or collateralized with securities held by the District or by its agent in the District's name.	Investments that are insured or registered, or securities held by District or by its agent in the District's name.
Category 2	Deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.	Investments that are uninsured and registered, with securities held by the counterparty's trust department or agent in the District's name.
Category 3	Deposits that are uncollateralized (including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the District's name).	Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not held in the District's name.
Not Categorized		Investments in mutual funds, money markets and investment management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

**4. DEPOSITS AND INVESTMENTS (CONTINUED)**

For deposits, custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. At June 30, 2006, the carrying amount of the District's cash deposits was \$2,047,464 and the bank balance was \$2,139,572. At June 30, 2006, \$308,965 of the bank balance was insured by the FDIC (Category 1). The remaining balance was covered by a 105% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the District's name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

As of June 30, 2006, the District had \$183,484 invested in STAR Ohio.

**Interest rate risk** – Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The District does not have an investment policy that addresses interest rate risk.

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

The District does not have an investment policy that addresses credit risk. Standard & Poor's rated STAR Ohio AAAm.

**Concentration of credit risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The District does not have an investment policy that addresses concentration of credit risk. 100% of the District's investments are in STAR Ohio.

**Custodial credit risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are all held in the name of the District.

The District complies with Ohio Revised Code requirements for governments for the types of securities permitted. Otherwise, the District does not have an investment policy that addresses custodial credit risk.

**5. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.



**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

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**5. PROPERTY TAXES (CONTINUED)**

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2006 operations. For the governmental fund financial statements, 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 was recognized as revenue.

The amount available as an advance at June 30, 2006, was \$337,269 in the General Fund, \$41,173 in the Bond Retirement Debt Service Fund, \$25,493 in the Capital Projects Fund, and \$2,445 in the Special Revenue Fund. The amount available as an advance at June 30, 2005, was \$273,873 in the General Fund, \$33,709 in the Bond Retirement Debt Service Fund, and \$20,420 in the Capital Projects Fund.

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

	<b>2005 Second- Half Collections</b>		<b>2006 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$79,174,020	80%	\$78,303,570	82%
Industrial/Commercial	7,259,480	7%	7,738,340	8%
Public Utility	7,617,640	8%	6,013,924	6%
Tangible Personal	5,192,468	5%	5,480,090	6%
Total Assessed Value	<u>\$99,243,608</u>	<u>100%</u>	<u>\$97,535,924</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$44.31		\$44.31	

**6. INCOME TAX**

The District levies a voted tax of one and three-fourths percent for general operations on the income of residents and of estates. The one-percent tax was effective January 1, 1989, and is for a continuing period. The three-fourths percent tax was effective January 1, 2003 and expires December 31, 2007. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding the amount for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

**7. RECEIVABLES**

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

A summary of the principal items of intergovernmental receivables follows:

	<b>Amount</b>
Governmental Activities	
Title I	\$46,308
Drug Free Schools	4,045
Title II-A	9,781
Total Intergovernmental Receivables	\$60,134

**8. CAPITAL ASSETS**

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

	<b>Balance at 6/30/05</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 6/30/06</b>
Nondepreciable Capital Assets				
Land	\$592,870	\$0	\$0	\$592,870
Total Nondepreciable Capital Assets	592,870	0	0	592,870
Depreciable Capital Assets				
Land Improvements	580,088	0	0	580,088
Buildings and Building Improvements	14,729,225	1,138,698	0	15,867,923
Furniture, Fixtures, and Equipment	2,552,053	219,323	0	2,771,376
Vehicles	977,304	122,500	0	1,099,804
Books	760,442	0	0	760,442
Total Depreciable Capital Assets	19,599,112	1,480,521	0	21,079,633
Less Accumulated Depreciation				
Land Improvements	(377,108)	(17,392)	0	(394,500)
Buildings and Building Improvements	(2,639,078)	(378,093)	0	(3,017,171)
Furniture, Fixtures, and Equipment	(1,797,871)	(168,809)	0	(1,966,680)
Vehicles	(655,667)	(63,505)	0	(719,172)
Books	(600,442)	(36,669)	0	(637,111)
Total Accumulated Depreciation	(6,070,166)	(664,468)	0	(6,734,634)
Depreciable Capital Assets, Net	13,528,946	816,053	0	14,344,999
Governmental Activities Capital Assets, Net	\$14,121,816	\$816,053	\$0	\$14,937,869

**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**8. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$396,861
Special	1,364
Vocational	1,795
Support Services:	
Pupil	29,965
Instructional Staff	62,282
Administration	5,776
Fiscal	1,237
Operation and Maintenance of Plant	91,767
Pupil Transportation	57,590
Central	5,260
Non-Instructional Services	1,625
Extracurricular	8,320
Capital Outlay	626
Total Depreciation Expense	<u>\$664,468</u>

**9. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the District contracted with the Schools of the Ohio Risk Sharing Authority for the following insurance coverages.

Building and Contents - replacement cost (\$1,000 deductible)	\$41,559,785
Inland Marine Coverage (included in Building and Contents)	-
Employee Dishonesty Bond - blanket (\$1,000 deductible)	50,000
Vehicle Liability (combined single limit)	5,000,000
Medical Payments per Person	5,000/25,000
Uninsured/Underinsured Motorists	1,000,000
General Liability	
Per occurrence	5,000,000
Total per year	7,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverages from last year.

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including health, dental, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs. See Note 16 for additional information on the program.

**9. RISK MANAGEMENT (CONTINUED)**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement. See Note 16 for additional information on the plan.

**10. DEFINED PENSION BENEFIT PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$158,337, \$135,035, and \$136,994, respectively; 59 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$86,244.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**10. DEFINED PENSION BENEFIT PLANS (CONTINUED)**

**B. State Teachers Retirement System (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$542,435, \$559,007, and \$614,930, respectively; 86 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$79,244.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, five members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**11. POSTEMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2006, and June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.5 billion on June 30, 2006.

For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000. There were 119,184 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2006, the allocation rate is 3.42%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2006, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006, were \$158,751,207. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs.

The number of participants eligible to receive benefits is 59,492.

**12. EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time.

**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

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**12. EMPLOYEE BENEFITS (CONTINUED)**

**A. Compensated Absences (Continued)**

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for classified and 230 for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 46 days for classified employees and for one-fourth of accrued, but unused sick leave credit to a maximum of 57.5 days for certified employees. Also, classified employees can accumulate 40 personal days and receive payment for twenty percent of accrued, but unused personal leave to a maximum of 10 days. Personal day accumulation is not applicable to classified employees hired after June 30, 2002.

**B. Other Employee Benefits**

The District provides life, health, and dental insurance to most employees through the Northern Buckeye Education Council Employee Insurance Benefits Program.

**13. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2006, the following changes occurred in obligations reported in the Government-Wide Financial Statements:

	<b>Balance at 06/30/05</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance at 06/30/06</b>	<b>Amount Due In one Year</b>
Energy Conservation Notes	\$118,000	\$0	\$58,000	\$60,000	\$60,000
Note Payable	341,000	0	31,000	310,000	31,000
OSFC Bond Issue	5,014,511	28,974	125,000	4,918,485	130,000
Compensated Absences	631,607	701,367	631,607	701,367	15,000
<b>Total Long-Term Obligations</b>	<b>\$6,105,118</b>	<b>\$730,341</b>	<b>\$845,607</b>	<b>\$5,989,852</b>	<b>\$236,000</b>

Compensated absences will be paid from the fund from which the employees' salaries are paid.

On February 10, 1997, the District issued \$500,000 in unvoted general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of the Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued at an interest rate of 4.75 percent for a ten fiscal year period with final maturity during fiscal year 2007. The debt will be retired from savings which are anticipated from the energy conservation improvements. The notes are paid from the bond retirement debt service fund.

The note payable is part of a Fiber Optic Network Project. The original liability for the District was \$465,000. The District paid \$31,000 in fiscal year 2006. The remaining liability is payable in annual installments of \$31,000 with final maturity in fiscal year 2016. The note is non-interest bearing. The note is paid from the general fund.

The OSFC Bond Issue was entered into in 2002 for the amount of \$5,101,000. The bond was issued to retire notes issued for the construction of a new school building and renovation of other buildings. The bond issue includes serial, term and capital appreciation bonds, in the amount of \$1,816,000, \$3,075,000, and \$210,000, respectively. The bonds carry interest rates ranging from 2 percent to 4.75 percent and with a final maturity in fiscal year 2030. The bonds are paid from the bond retirement debt service fund.

**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**13. LONG-TERM OBLIGATIONS (CONTINUED)**

The current interest term bonds maturing on December 1, 2017 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the year and in the respective principal amount as follows:

<u>Year</u>	<u>Amount</u>
2016	\$175,000

The remaining principal amount of such current interest bonds (\$185,000) will be paid at the stated maturity on December 1, 2017.

The current interest term bonds maturing on December 1, 2022 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the year and in the respective principal amount as follows:

<u>Year</u>	<u>Amount</u>
2021	\$220,000

The remaining principal amount of such current interest bonds (\$230,000) will be paid at the stated maturity on December 1, 2022.

The current interest term bonds maturing on December 1, 2030 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the year and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2023	\$240,000
2024	250,000
2025	265,000
2026	275,000
2027	290,000
2028	300,000
2029	315,000

The remaining principal amount of such current interest bonds (\$330,000) will be paid at the stated maturity on December 1, 2017.

The current interest bonds maturing after December 1, 2012 are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any interest payment date on or after December 31, 2012, at 100 percent of the principal amount redeemed plus accrued interest to the date fixed for redemption. The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2010 through 2013. The maturity amount of the bonds is \$660,000. For fiscal year 2006, \$28,974 was accreted on the capital appreciation bonds for a total outstanding bond value of \$4,918,485 at fiscal year end.



**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

**13. LONG-TERM OBLIGATIONS (CONTINUED)**

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2006 are as follows:

Year Ending June 30,	Serial	Term	Capital	Notes	Interest	Total
2007	\$130,000	\$0	\$0	\$91,000	\$199,803	\$420,803
2008	135,000	0	0	31,000	195,128	361,128
2009	145,000	0	0	31,000	191,270	367,270
2010	160,000	0	0	31,000	186,647	377,647
2011	0	0	60,000	31,000	184,128	275,128
2012-2016	335,000	0	150,000	155,000	907,833	1,547,833
2017-2021	600,000	360,000	0	0	755,070	1,715,070
2022-2026	0	1,205,000	0	0	506,716	1,711,716
2027-2031	0	1,510,000	0	0	185,725	1,695,725
Total	<u>\$1,505,000</u>	<u>\$3,075,000</u>	<u>\$210,000</u>	<u>\$370,000</u>	<u>\$3,312,320</u>	<u>\$8,472,320</u>

**14. SET-ASIDE CALCULATIONS AND FUND RESERVES**

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. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2006, only the unspent portion of certain workers' compensation refunds is required to be set-aside at fiscal year end.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2005	(\$696,101)	\$0	\$23,745
Current Year Set-aside Requirement	152,812	152,812	0
Current Year Offsets	0	(76,925)	0
Qualifying Disbursements	(247,708)	(75,887)	0
Amount Carried Forward to Fiscal Year 2007	<u>(\$790,997)</u>	<u>\$0</u>	<u>\$23,745</u>
Set-Aside Cash Balance as of June 30, 2006	<u>(\$790,997)</u>	<u>\$0</u>	<u>\$23,745</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. The negative amounts may be used to offset future year textbook set-aside requirements.

**15. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. 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 school districts. The Northern Buckeye Education Council governs NWOCA and its participating members. In fiscal year 2006, Patrick Henry Local School District contributed \$79,345 to NWOCA. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**C. Four County Career Center**

The Four County Career Center (the Center) is a distinct political subdivision of the State of Ohio, which provides vocational education for students. The Center is operated under the direction of a Board consisting of two representatives from the Fulton County Educational Service Center, one representative from the Defiance, Henry, and Williams Counties' Educational Service Centers, and one representative from the participating school districts. The Center possesses its own budgeting and taxing authority. Financial information can be obtained from the Four County Career Center, Lois Knuth, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**16. GROUP PURCHASING POOLS**

**A. Northern Buckeye Education Council Employee Insurance Benefits Program**

The Northern Buckeye Education Council Employee Insurance Benefits Program (the Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The NBEC and its participating members govern the Program. In fiscal year 2006, Patrick Henry Local School District contributed \$1,102,035 to the Northern Buckeye Education Council for insurance premiums. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**16. GROUP PURCHASING POOLS (CONTINUED)**

**B. Northern Buckeye Education Council Workers' Compensation Group Rating Plan**

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the Northern Buckeye Education Council and the participating members of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participating members pay an enrollment fee, \$953 in fiscal year 2006, to the Plan to cover the costs of administering the program.

**C. Schools of Ohio Risk Sharing Authority**

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by § 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons that might result in claims being made against members of SORSA, their employees or officers.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of Superintendents, Treasurers, or Business Managers from the participating school districts. Willis Pooling administers the pool and Frank Gates Service Company manages the claims. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**17. RELATED ORGANIZATION**

Edwin Wood Memorial Library - The Edwin Wood Memorial Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Patrick Henry Local School District Board of Education.

The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Edwin Wood Memorial Library, Rhonda Hogrefe, Clerk/Treasurer, at 208 North East Street, Deshler, Ohio 43516.

**18. SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**Patrick Henry Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**19. CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

**B. Litigation**

There are currently no matters in litigation with the District as defendant.

**20. RESTRICTED ASSETS**

The following amounts, which are reflected on the statement of net assets, are restricted for budget stabilization.

	<b>Governmental Activities</b>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$23,745

**21. INTERFUND ACTIVITY**

Interfund Transfers

Transfers made during the year ended June 30, 2006 were as follows:

	Transfer In	Transfer Out
Major Fund:		
General Fund	\$62,228	\$0
Non-Major Fund:		
Bond Retirement Debt Service Fund	0	62,228
Total	\$62,228	\$62,228

Transfers were provided by the general fund for debt service payments.

Interfund Balances

Interfund balances at June 30, 2006 consisted of the following individual fund receivables and payables, which are expected to be repaid during fiscal year 2007:

	Receivable	Payable
Major Fund:		
General Fund	\$2,500	\$0
Non-Major Funds:		
Title V	0	1,500
Title IV	0	1,000
Total	\$2,500	\$2,500

**22. CHANGE IN ACCOUNTING PRINCIPLES**

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

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

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

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

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

# BALESTRA, HARR & SCHERER, CPAs, INC.

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Piketon, Ohio 45661

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Members of the Board  
Patrick Henry Local School District  
6-900 State Route 18  
Hamler, Ohio 43524-9781

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Patrick Henry Local School District, Henry 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 February 28, 2007, wherein we noted the District adopted Governmental Accounting Standards Board Statements No. 42, 46, and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and responses as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

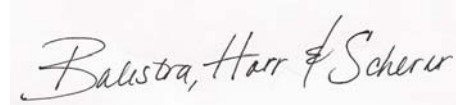
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Patrick Henry Local School District  
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit  
Performed in Accordance with *Government Auditing Standards*  
Page 2

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

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

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

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding 2006-1 – Capital Assets Errors

The District had an appraisal performed as of the end of the fiscal year. However, the appraisal report appears to be incorrect as land and buildings were not recognized, resulting in variances between recorded cost basis assets and appraised cost basis assets. These variances had not been resolved as of the audit report date. In addition to this situation, the auditors also noted a material amount of unrecorded capital assets related to the District's Ohio School Facilities Commission project, which resulted in audit adjustments. Furthermore, the District does not maintain a comprehensive capital asset manual.

The District does not have a comprehensive capital asset policies and procedures manual to assist in defining items to be capitalized and depreciated. The lack of a comprehensive capital asset listing and a thorough capital asset policies and procedures manual could result in errors or irregularities occurring and not being detected in a timely manner.

In order to address the items mentioned above, the District should implement the following procedures:

- Develop a comprehensive capital assets policies and procedures manual which encompasses all types of capital assets including land, land improvements, buildings, infrastructure, machinery and equipment, and any other capital assets. This manual needs to address capitalization areas such as dollar amounts over which items will be capitalized, potential capitalization of large batch purchases of capital assets under the dollar threshold, estimated useful lives for various types of capital assets, defining which networks of infrastructure will and won't be reported and how much information should be maintained for these items, incorporation of infrastructure capital assets for governmental activities into the capital asset management system, and other pertinent areas.
- Conduct a physical inventory of all capital assets and update the capital asset management system to properly reflect all capital assets owned by the District. Any differences should be investigated and appropriately documented.
- Reconcile the detailed capital asset report with the capital asset amounts reported in the financial statements and make appropriate corrections and adjustments to the District's capital asset records. Maintain a detailed file documenting differences noted, how items were corrected, and explanations regarding all changes made to the District's capital asset system.
- Provide or obtain appropriate training for all District personnel who will be involved in capital asset accounting and reporting.

In addition, the District should contact its appraiser and GAAP financial statement compilation consultant and investigate and resolve the issues regarding the errors in capital assets.

Client Response

I will work with the appraisal company and the GAAP consultant to remedy the problems caused by the appraisal.

Thomas Taylor, Treasurer, Patrick Henry Local School District





**Mary Taylor, CPA**  
Auditor of State

**PATRICK HENRY LOCAL SCHOOL DISTRICT**

**HENRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 10, 2007**