



**Auditor of State  
Betty Montgomery**



**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**TABLE OF CONTENTS**

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Assets .....	12
Statement of Activities.....	13
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Net Assets – Fiduciary Funds.....	18
Statement of Changes in Net Assets – Fiduciary Funds .....	19
Notes to the Basic Financial Statements .....	20
Required Supplemental Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund .....	39
Notes to Required Supplementary Information.....	40
Federal Awards Expenditures Schedule.....	41
Notes to the Federal Awards Expenditures Schedule .....	42
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	43
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	45
Schedule of Findings .....	47

**This page intentionally left blank.**



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Forest Hills Local School District  
Hamilton County  
7550 Forest Road  
Cincinnati, Ohio 45230

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Forest Hills Local School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Forest Hills Local School District, Hamilton County, Ohio, as of June 30, 2005, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Betty Montgomery**  
Auditor of State

March 16, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the Forest Hills Local School District for the year ended June 30, 2005. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

### Financial Highlights

Major financial highlights for fiscal year 2005 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$41.8 million. Of this amount, \$23.8 million may be used to meet the government's ongoing obligations to citizens and creditors.
- ✓ In total, net assets increased by \$4.4 million.
- ✓ The School District had \$67.6 million in expenses related to governmental activities; only \$5.9 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$66.1 million, made up primarily of property taxes and State Foundation payments, were adequate to provide for these programs.
- ✓ The General Fund balance increased by \$3.8 million from \$19.7 million at June 30, 2004 to \$23.5 million at June 30, 2005.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating. The statement of activities presents information showing how the School District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2005**  
**Unaudited**

---

The governmental activities of the School District include instruction, support services (administration, operation and maintenance of plant), and non-instructional services including extracurricular activities and food services. The School District has no business-type activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School District's near-term financing requirements.

Because the focus of 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 government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-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 facilitate this comparison between government funds and governmental activities.

The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. Some funds are required to be established by State law. Also, the School District may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

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

**Notes to the basic financial statements.** The notes provide additional information that is essential to understanding the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the General Fund budget.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2005**  
**Unaudited**

---

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**A. Net assets at year-end**

The following table presents a condensed summary of the School District's overall financial position at June 30, 2005 and 2004:

		<u><b>Governmental Activities</b></u>	
		<u><b>FY05</b></u>	<u><b>FY04</b></u>
Current and other assets	\$	58,722,496	57,949,809
Capital assets		<u>33,235,256</u>	<u>34,725,945</u>
Total assets		<u>91,957,752</u>	<u>92,675,754</u>
Long-term debt outstanding		23,377,147	24,487,306
Other liabilities		<u>26,822,973</u>	<u>30,812,012</u>
Total liabilities		<u>50,200,120</u>	<u>55,299,318</u>
Net assets:			
Invested in capital assets, net of debt		12,785,256	13,065,945
Restricted:			
For capital purposes		1,512,068	1,307,978
Other purposes		2,921,541	2,028,538
Endowment:			
Expendable		21,531	13,064
Nonexpendable		710,224	710,224
Unrestricted		<u>23,807,012</u>	<u>20,250,687</u>
Total net assets	\$	<u><u>41,757,632</u></u>	<u><u>37,376,436</u></u>

A significant portion of the School District's net assets (31%) reflects its investment in capital assets. Capital assets are used to provide services to citizens and thus, these assets are not available for future spending. A portion of the School District's net assets (11%) represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets may be used to meet the School District's ongoing obligations to citizens and creditors.

Capital assets decreased almost \$1.5 million based upon depreciation expense greater than the growth in capital assets. This was the main cause of total assets decreasing approximately \$700,000 in FY05. Taxes receivable, which is based on county auditor tax revenue estimates, remained stable.

As to liabilities, deferred revenue is down \$4.4 million due to the increase in the amount available for advance of over \$4.0 million (\$13.9 million in FY05 vs. \$9.4 million in FY04). The timing of tax bill mailings by the county can impact the amount available for advance. Actual tax revenue received has been relatively stable with yearly variations explained by operating levy passages (most recent change – FY03) and new construction/growth in the School District

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2005**  
**Unaudited**

**B. Governmental Activities**

The following table presents a condensed summary of the School District's governmental activities during fiscal year 2005 and 2004 and the resulting change in net assets:

	<u><b>FY05</b></u>	<u><b>FY04</b></u>
<b>Revenues:</b>		
Program revenues:		
Charges for services and sales	\$ 2,666,146	2,650,761
Operating grants and contributions	3,138,764	2,544,527
Capital grants and contributions	<u>65,625</u>	<u>-</u>
Total program revenues	<u>5,870,535</u>	<u>5,195,288</u>
General revenues:		
Property taxes	38,732,824	30,599,371
Revenue in lieu of taxes	3,536,022	3,324,301
Grants and entitlements	22,469,517	21,926,641
Investment earnings	578,036	272,196
Miscellaneous	<u>787,217</u>	<u>756,414</u>
Total general revenues	<u>66,103,616</u>	<u>56,878,923</u>
<b>Total revenues</b>	<u><b>71,974,151</b></u>	<u><b>62,074,211</b></u>
<b>Expenses:</b>		
Instruction	39,197,514	36,777,449
Support services:		
Pupil	2,602,278	2,573,308
Instructional staff	5,037,220	4,669,814
Board of Education	46,671	39,347
Administration	4,525,184	4,780,558
Fiscal	955,590	923,457
Business	139,224	135,926
Operation and maintenance of plant	5,628,239	4,906,313
Pupil transportation	3,426,477	3,143,653
Central	464,332	409,612
Non-instructional services	2,835,274	2,341,580
Interest and fiscal charges	967,326	1,113,624
Food services	<u>1,767,627</u>	<u>1,711,573</u>
<b>Total expenses</b>	<u><b>67,592,956</b></u>	<u><b>63,526,214</b></u>
<b>Change in net assets</b>	<b>\$ <u>4,381,195</u></b>	<b><u>(1,452,003)</u></b>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2005**  
**Unaudited**

Of the total governmental activities revenues of \$71,974,151, \$5,870,535 (8%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, 59% (\$38,732,824) comes from property tax levies and 34% (\$22,469,517) is from state and federal funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

Property tax revenues increased over \$8.1 million. As discussed above, the timing of tax bill mailings by the county is believed to have greatly impacted the amount available for advance as of June 30 which affects revenue recognition of taxes. On the expense side, instructional and instructional staff expenses increased over \$2.4 million which accounts for the majority of the over \$4.0 million increase in total expenses. The majority of this increase is in the salaries and benefits for the instructional staff. Operation and maintenance of plant also increased over \$700,000. The School District incurred additional costs to operate existing district facilities.

***Governmental Activities***

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 9% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$39,197,514 but program revenue contributed to fund 5% of those costs. Thus, general revenues of \$37,313,330 were used to support of remainder of the instruction costs. The School District's Food Service operation generated enough program revenue to cover daily operating costs

The School District's governmental activities net assets increased by \$4,381,195 due primarily to the timing of property tax collections by the County Auditor. The amount collected and available for advance at year-end is recorded as revenue. The amount available for advance at June 30, 2005 was \$4.5 million more than at June 30, 2004.

**Governmental Activities**

		<b><u>Total Cost of Services</u></b>	<b><u>Program Revenue</u></b>	<b><u>Revenues as a % of Total Costs</u></b>	<b><u>Net Cost of Services</u></b>
Instruction	\$	39,197,514	1,884,184	5%	37,313,330
Support services		22,825,215	974,468	4%	21,850,747
Non-instructional services		2,835,274	1,214,905	43%	1,620,369
Food services		1,767,627	1,796,978	102%	(29,351)
Interest and fiscal charges		<u>967,326</u>	<u>-</u>	0%	<u>967,326</u>
<b>Total</b>	<b>\$</b>	<b><u>67,592,956</u></b>	<b><u>5,870,535</u></b>	<b><u>9%</u></b>	<b><u>61,722,421</u></b>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2005**  
**Unaudited**

---

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S GENERAL FUND**

**Governmental funds**

The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The School District has one major governmental fund: the General Fund. Assets of this fund comprise \$50,765,170 (87%) of the total \$58,562,924 governmental funds assets.

*General Fund.* Fund balance at June 30, 2005 was \$23,529,946, including \$9,696,401 of unreserved balance, which represents 16% of expenditures for fiscal year 2005. The primary reason for the increase in fund balance of \$3,812,621 was the timing of property tax collections by the County Auditor. The amount collected and available for advance at year-end is recorded as revenue. The amount available for advance at June 30, 2005 was \$4.5 million more than at June 30, 2004.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the School District's original and final budgets and actual results are included in the required supplementary information. During fiscal year 2005, the School District amended its General Fund budget with Hamilton County as changes occurred in School District revenues and expenditures.

Actual General Fund expenditures were \$1,301,766 (2.2%) lower than the final budget and \$965,999 (1.7%) lower than the original budget. Under-expenditures in instruction, special education services, employee benefits, diesel fuel and property and liability insurance accounted for the majority of these variances.

Actual General Fund revenues were \$243,106 (.4%) higher than the final budget. General Fund revenues in the final budget were \$1,081,423 than the original budget due to the following:

- Tax Revenue – Tax revenues in the original budget are based upon the estimated amount the county auditor will certify. These estimates are typically more conservative than estimates from the School District.
- Intergovernmental Revenue - State Foundation revenues were increased due to actual student enrollment greater than projected.
- Interest – Increased due to rising interest rates.
- Tuition and Fees - Increased due to additional emphasis placed on management of tuition students (SF-14 and SF-6).

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2005**  
**Unaudited**

---

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2005, the School District had \$33,235,256 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 5 to the financial statements for more detail.

**Capital Assets at Year-End  
(Net of Depreciation)**

		<u><b>FY05</b></u>	<u><b>FY04</b></u>
Land	\$	1,010,802	1,010,802
Construction in progress		167,229	76,083
Land improvements		1,885,107	2,076,229
Buildings		18,715,740	19,328,374
Buildings improvements		8,968,528	9,537,827
Furniture and equipment		1,030,179	1,077,475
Vehicles		<u>1,457,671</u>	<u>1,619,155</u>
Total	\$	<u><u>33,235,256</u></u>	<u><u>34,725,945</u></u>

Net Capital Assets decreased \$1,490,689 in FY05.

Major capital assets completed during FY05 included:

Completed Construction Projects (with approximate cost):

- Anderson High School – Office Renovation - \$80,500
- Mercer Elementary School – Roof Replacement - \$72,500
- Sherwood Elementary School – Asphalt Replacement - \$10,000

The increase in capital assets is offset by the recognition of depreciation expense of \$2,011,009 in fiscal year 2005.

**Debt**

A summary of long-term obligations is located in Note 11.

In 1996, the district passed a 2.21 mil bond issue providing \$26.1 million dollars for a new middle school, a new high school auditorium, district technology improvements and other various improvements. At June 30, 2005, the School District had \$20,450,000 in outstanding bonds, \$1,305,000 due within one year.

The School District's overall legal debt margin was \$83,884,278 with an unvoted debt margin of \$1,159,270 at June 30, 2005.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2005**  
**Unaudited**

---

**ECONOMIC FACTORS**

A challenge facing the School District is state funding. School funding continues to be a complex and unstable issue for Ohio school districts. 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 system 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Other Economic Factors:

- Enrollment Trends – The average change in district enrollment over the past five years is a decrease of 28 students. Enrollment figures impact all planning efforts of the School District including class size projections, staffing levels, facility usage/building capacities and many other long term planning efforts.
- In tax year 2004, collectible in 2005, we experienced a net increase in the residential / agriculture tax values of \$2,968,380 due to new construction. The average increase (due to new construction) in the tax values over the last five years is \$7,808,780. In tax year 2004, collectible in 2005, we experienced a net decrease in the commercial / industrial tax values of \$1,933,180.
- Three real estate developments in the School District are projected to add approximately 300+ single family homes to the district over the next five years.
- Low interest rates have significantly reduced the School District's interest income. With most of this interest going into the Permanent Improvement Fund for capital and large preventive maintenance projects, the General Fund may need to support more of these projects.
- The Anderson Towne Center (located on the northeast corner of Beechmont Avenue and Five Mile Road) opened in November 2004. The center includes the world's largest Kroger store, a renovated Lazarus department store, restaurants and shops. We will adjust our projections, as more and better information is available regarding the Anderson Towne Center and other commercial properties.
- Fiscal year 2005 is the first year of a three-year labor agreement with Forest Hills Teachers Association, OAPSE #273 and OAPSE #177.
- The School District's Five Year Financial Forecast (FY06-FY10) projects a deficit in FY08. The School District is considering an operating levy in 2006.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2005**  
**Unaudited**

---

- School funding continues to be a complex and unstable issue for Ohio school districts. Due to the current condition of the state's budget, we approach state funding projections with extreme caution. It is possible that the School District could face additional state funding cuts in the near future.

**REQUESTS FOR ADDITIONAL INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Forest Hills Local School District, 7550 Forest Road, Cincinnati, Ohio 45255.

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and investments	\$ 22,814,914
Receivables:	
Taxes	34,822,070
Accounts	101,973
Intergovernmental	141,858
Interest	105,018
Supplies inventory	326,453
Restricted cash and investments	250,638
Deferred charges	159,572
Nondepreciable capital assets	1,178,031
Depreciable capital assets, net	<u>32,057,225</u>
<b>Total assets</b>	<u>91,957,752</u>
<b>Liabilities:</b>	
Accounts payable	122,480
Accrued wages and benefits	5,685,804
Pension obligation payable	1,419,328
Deferred revenue	19,475,070
Accrued interest payable	120,291
Noncurrent liabilities:	
Due within one year	1,780,691
Due within more than one year	<u>21,596,456</u>
<b>Total liabilities</b>	<u>50,200,120</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	12,785,256
Restricted for:	
Capital projects	1,512,068
Other purposes	2,921,541
Endowment:	
Expendable	21,531
Nonexpendable	710,224
Unrestricted	<u>23,807,012</u>
<b>Total net assets</b>	<u>\$ 41,757,632</u>

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**

Statement of Activities  
Year Ended June 30, 2005

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$ 31,826,905	824,707	293,147	65,625	\$ (30,643,426)
Special education	6,894,199	-	700,705	-	(6,193,494)
Other	476,410	-	-	-	(476,410)
Support services:					
Pupil	2,602,278	-	172,353	-	(2,429,925)
Instructional staff	5,037,220	-	641,733	-	(4,395,487)
Board of Education	46,671	-	-	-	(46,671)
Administration	4,525,184	-	160,382	-	(4,364,802)
Fiscal	955,590	-	-	-	(955,590)
Business	139,224	-	-	-	(139,224)
Operation and maintenance of plant	5,628,239	-	-	-	(5,628,239)
Pupil transportation	3,426,477	-	-	-	(3,426,477)
Central	464,332	-	-	-	(464,332)
Non-instructional services:					
Extracurricular activities	1,971,188	428,676	-	-	(1,542,512)
Community service	864,086	-	786,229	-	(77,857)
Food Service	1,767,627	1,412,763	384,215	-	29,351
Interest on long-term debt	967,326	-	-	-	(967,326)
<b>Total Governmental Activities</b>	<b>\$ 67,592,956</b>	<b>2,666,146</b>	<b>3,138,764</b>	<b>65,625</b>	<b>(61,722,421)</b>

**General Revenues:**

Property taxes, levied for general purposes	36,643,506
Property taxes, levied for debt services	2,089,318
Revenue in lieu of taxes	3,536,022
Grants and entitlements not restricted to specific programs	22,469,517
Investment earnings	578,036
Miscellaneous	787,217
<b>Total general revenues</b>	<b>66,103,616</b>
Change in net assets	4,381,195
Net assets beginning of year	37,376,437
Net assets end of year	<b>\$ 41,757,632</b>

See accompanying notes to the basic financial statements.

# FOREST HILLS LOCAL SCHOOL DISTRICT

Balance Sheet  
 Governmental Funds  
 June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in pooled cash and investments	\$ 17,133,614	5,681,300	22,814,914
Restricted cash and investments	250,638	-	250,638
Receivables:			
Taxes	33,003,582	1,818,488	34,822,070
Accounts	99,701	2,272	101,973
Accrued interest	1,886	103,132	105,018
Intergovernmental	498	141,360	141,858
Materials and supplies inventory	275,251	51,202	326,453
<b>Total assets</b>	<u>50,765,170</u>	<u>7,797,754</u>	<u>58,562,924</u>
<b>Liabilities:</b>			
Accounts payable	78,737	43,743	122,480
Accrued wages and benefits	5,492,569	193,235	5,685,804
Pension obligation payable	1,322,745	96,583	1,419,328
Compensated absences payable	475,691	-	475,691
Deferred revenue	19,865,482	1,148,300	21,013,782
<b>Total liabilities</b>	<u>27,235,224</u>	<u>1,481,861</u>	<u>28,717,085</u>
<b>Fund Balances:</b>			
Reserved for:			
Encumbrances	169,556	455,632	625,188
Budget stabilization	250,638	-	250,638
Property taxes	13,138,100	751,300	13,889,400
Supplies inventory	275,251	51,202	326,453
Debt service	-	1,271,130	1,271,130
Endowment		710,224	710,224
Unreserved, reported in:			
General Fund	9,696,401	-	9,696,401
Special Revenue Funds	-	2,104,378	2,104,378
Capital Projects Funds	-	950,496	950,496
Permanent Fund	-	21,531	21,531
<b>Total fund balances</b>	<u>23,529,946</u>	<u>6,315,893</u>	<u>29,845,839</u>
<b>Total liabilities and fund balances</b>	<u>\$ 50,765,170</u>	<u>7,797,754</u>	<u>58,562,924</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2005

**Total Governmental Fund Balances** \$ 29,845,839

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

Capital assets used in governmental activities are not financial  
 resources and therefore are not reported in the funds. 33,235,256

Other long-term assets are not available to pay for current-period  
 expenditures and therefore are not reported in the funds. 1,538,712

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

General Obligation Bonds	20,450,000	
Compensated Absences	2,291,884	
Accrued interest payable	<u>120,291</u>	
Total		<u>(22,862,175)</u>

Net Assets of Governmental Activities \$ 41,757,632

## FOREST HILLS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 36,590,906	2,092,318	38,683,224
Tuition and fees	438,149	386,558	824,707
Charges for services	-	1,412,763	1,412,763
Interest	59,779	558,049	617,828
Revenue in lieu of taxes	3,352,234	183,788	3,536,022
Intergovernmental	22,228,869	3,324,133	25,553,002
Other local revenues	392,860	823,034	1,215,894
<b>Total revenues</b>	<b>63,062,797</b>	<b>8,780,643</b>	<b>71,843,440</b>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	30,044,439	760,089	30,804,528
Special education	6,190,409	667,470	6,857,879
Other	475,156	-	475,156
Support services:			
Pupil	2,498,523	165,820	2,664,343
Instructional staff	4,270,954	617,852	4,888,806
Board of Education	46,671	-	46,671
Administration	4,082,355	492,537	4,574,892
Fiscal	950,000	-	950,000
Business	138,522	-	138,522
Operation and maintenance of plant	5,105,639	-	5,105,639
Pupil transportation	3,238,369	-	3,238,369
Central	464,402	-	464,402
Non-instructional services:			
Extracurricular activities	1,307,650	554,679	1,862,329
Community service	37,380	824,861	862,241
Food service	-	1,760,260	1,760,260
Capital outlay	-	609,053	609,053
Debt Service:			
Principal	-	1,210,000	1,210,000
Interest and fiscal charges	-	933,123	933,123
<b>Total expenditures</b>	<b>58,850,469</b>	<b>8,595,744</b>	<b>67,446,213</b>
Excess of revenues over (under) expenditures	4,212,328	184,899	4,397,227
<b>Other financing sources (uses):</b>			
Transfers in	-	401,753	401,753
Transfers out	(401,753)	-	(401,753)
Sale of capital assets	2,046	-	2,046
<b>Total other financing sources (uses):</b>	<b>(399,707)</b>	<b>401,753</b>	<b>2,046</b>
Net change in fund balance	3,812,621	586,652	4,399,273
Fund balance, beginning of year, restated	19,717,325	5,729,241	25,446,566
Fund balance, end of year	\$ 23,529,946	6,315,893	29,845,839

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2005

**Net Change in Fund Balances - Total Governmental Funds** \$ 4,399,273

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is  
allocated over their estimated useful lives as depreciation expense.

Capital outlay	546,101
Depreciation expense	(2,011,009)

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

1,210,000

In the statement of activities, interest is accrued on outstanding bonds, whereas  
in governmental funds, an interest expenditure is reported when due.

(34,203)

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

166,102

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

130,712

In the statement of activities, only the loss on the sale of capital assets is reported  
current financial resources are not reported as revenues in the funds.

(25,781)

Change in Net Assets of Governmental Activities

\$ 4,381,195

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Statement of Net Assets

### Fiduciary Funds

June 30, 2005

	Private Purpose Trusts	Agency Funds
<b>ASSETS</b>		
Equity in pooled cash and investments	\$ 251,365	211,614
Accrued interest receivable	<u>19</u>	<u>-</u>
Total assets	<u><u>251,384</u></u>	<u><u>211,614</u></u>
<b>LIABILITIES</b>		
Due to student groups	<u>-</u>	<u>211,614</u>
Total liabilities	<u>-</u>	<u>211,614</u>
<b>NET ASSETS</b>		
Held in trust	\$ <u><u>251,384</u></u>	<u><u>-</u></u>

See accompanying notes to the basic financial statements.

# FOREST HILLS LOCAL SCHOOL DISTRICT

Statement of Changes in Net Assets

Fiduciary Funds

Year Ended June 30, 2005

	<u>Private- Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ 114,129
Interest	<u>3,878</u>
Total additions	<u>118,007</u>
<b>Deductions:</b>	
Community gifts, awards and scholarships	<u>37,373</u>
Total deductions	<u>37,373</u>
Change in net assets	80,634
Net assets, beginning of year	<u>170,750</u>
Net assets, end of year	<u>\$ 251,384</u>

See accompanying notes to the basic financial statements.

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Forest Hills Local School District (the "School 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 more significant of the School District's accounting policies are described below.

#### A. Reporting Entity

The School District was originally chartered by the Ohio State Legislature. In 1853, state laws were enacted to create a local Board of Education. Today, the School District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.09 of the Ohio Revised Code. The School District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal guidelines. This Board controls the School District's instructional and support facilities to provide services to students and other community members.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. This includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The following activity is included within the reporting entity:

*Parochial School* - Within the School District boundaries, Immaculate Heart of Mary Elementary School is operated through the Cincinnati Catholic Archdiocese. Current State legislation provides funding to this parochial school, which is received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The administration of the State monies by the School District is reflected in a special revenue fund for financial reporting purposes.

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

---

The School District is associated with three organizations, two of which are as jointly governed organizations and one is an insurance purchasing pool. These organizations are the Hamilton Clermont Cooperative Association/Unified Purchasing Association, the Great Oaks Joint Vocational School, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. The organizations are presented in Notes 12 and 13 to the basic financial statements.

### **B. Basis of Presentation**

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore 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 School 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 School District.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

---

### C. Fund Accounting

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental and fiduciary.

**Governmental funds** focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the School District's 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 balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Fiduciary Funds** report on net assets and changes in net assets. The School District's fiduciary funds consist of a private-purpose trust fund and agency funds. The School District's private-purpose trust fund accounts for scholarship programs for students. These assets are not available for the School District's use. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made.

The modified accrual basis of accounting is used by the governmental funds and agency funds. On a modified accrual basis, revenues are recorded when they become both measurable and 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. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, and grants.

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 except for unmatured principal and interest on general long-term debt which is recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

## FOREST HILLS LOCAL SCHOOL DISTRICT

### Notes to the Basic Financial Statements

Year Ended June 30, 2005

---

Government-wide financial statements are prepared using the accrual basis of accounting. Also, private-purpose trust funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

***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.

Non-exchange transactions, in which the School District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes were 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 School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

***Deferred Revenue*** Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2005, which are intended to finance fiscal year 2006 operations have been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

#### **E. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in several bank accounts. Monies for all funds are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

During fiscal year 2005, the School District's investments were limited to certificates of deposit and the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that 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, 2005.

**FOREST HILLS LOCAL SCHOOL DISTRICT**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2005**

---

The Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", requires that investments, with certain exceptions, be recorded at their fair value and that changes in the fair value be reported in the operating statement. The School District recorded investments held at June 30, 2005 at fair value.

By Board resolution, all investment earnings accrue to the Permanent Improvement Fund, except for the Bond Retirement Fund, which accrues to the General Fund, the Special Trust Fund which accrues to itself and other funds as required by law such as Food Services and Auxiliary Services.

**F. Inventory**

All inventories are valued at cost determined on a first-in, first-out basis. Inventory in governmental funds are recorded as expenditures in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**G. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements but are not reported in the governmental fund financial statements. The School District defines capital assets as those with an individual cost of more than \$2,500 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School 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.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

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

Buildings	50 years
Land improvements	15 years
Building improvements	20 - 25 years
Equipment and furniture other than vehicles	7-20 years
Vehicles	12 -15 years

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2005**

---

**H. 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 School District will compensate the employees for the benefits through paid time off or some other means. The School 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 School 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 School District's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements.

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

**J. Fund Balance Reserves**

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes, inventory and budget reserve set-asides.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statutes. The reserve for budget stabilization represents money set-aside to protect against cyclical changes in revenues and expenditures.

**K. Restricted Assets**

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2005**

---

**L. Net Assets**

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

Restricted net assets include an endowment from a donor which is permanently restricted and reported as nonexpendable as well as earnings on the original gift that are restricted to specific purposes and thus, reported as expendable.

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

**M. 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.

**2. CHANGE IN ACCOUNTING PRINCIPLE**

The School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk and outlines disclosure requirements.

The School District has implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers." The Technical Bulletin clarifies the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple employer pension and other postemployment benefit plans. The implementation of GASB Technical Bulletin 2004-2 had the following effect on fund balances previously reported:

	General Fund	Nonmajor Governmental Funds
Fund balance at June 30, 2004 as previously reported	\$ 20,074,819	5,783,130
Implementation of GASB Technical Bulletin 2004-2	<u>(357,494)</u>	<u>(53,889)</u>
Fund balance at June 30, 2004, restated	\$ <u>19,717,325</u>	<u>5,729,241</u>

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

---

### 3. DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal home loan mortgage corporation, and government national mortgage association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

## FOREST HILLS LOCAL SCHOOL DISTRICT

### Notes to the Basic Financial Statements

Year Ended June 30, 2005

---

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures"

#### Deposits

##### *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. At year-end, \$20,494,334 of the School District's bank balance of \$21,194,334 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

#### Investments

The School District's investment in STAROhio is not evidenced by securities that exist in physical or book entry form. Investments in STAR Ohio were rated AAAM by Standard & Poor's. The fair value of the School District's investment in STAROhio is \$8,781,262 at June 30, 2005.

## **4. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years.

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Notes to the Basic Financial Statements

Year Ended June 30, 2005

Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Hamilton County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005 are available to finance fiscal year 2005 operations. The amount available for advance varies based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became measurable as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2005, was \$13,138,100 in the General Fund and \$751,300 in the Debt Service Fund.

The assessed values upon which fiscal year 2005 taxes were collected are:

	<u>2004 Second- Half Collections</u>		<u>2005 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 1,073,982,850	93.01%	1,080,317,990	93.19%
Tangible Personal Property	<u>80,738,790</u>	6.99%	<u>78,951,770</u>	6.81%
Total Assessed Value	\$ <u>1,154,721,640</u>	100.00%	<u>1,159,269,760</u>	100.00%
Tax rate per \$1,000 of assessed valuation	\$58.57		\$58.57	

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2005**

**5. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance 7/1/04	Additions	Disposals	Balance 6/30/05
<b><i>Governmental Activities</i></b>				
<b>Nondepreciable:</b>				
Land	\$ 1,010,802	-	-	1,010,802
Construction in progress	76,083	399,793	(308,647)	167,229
Subtotal	<u>1,086,885</u>	<u>399,793</u>	<u>(308,647)</u>	<u>1,178,031</u>
<b>Depreciable:</b>				
Land improvements	3,035,209	9,597	-	3,044,806
Buildings	30,731,692	-	-	30,731,692
Building improvements	14,904,934	152,967	-	15,057,901
Equipment and furniture	3,150,227	230,711	(263,969)	3,116,969
Vehicles	4,187,659	61,680	(29,980)	4,219,359
Subtotal	<u>56,009,721</u>	<u>454,955</u>	<u>(293,949)</u>	<u>56,170,727</u>
Totals at historical cost	<u>57,096,606</u>	<u>854,748</u>	<u>(602,596)</u>	<u>57,348,758</u>
Less accumulated depreciation:				
Land improvements	958,980	200,719	-	1,159,699
Buildings	11,403,318	612,634	-	12,015,952
Building improvements	5,367,107	722,266	-	6,089,373
Equipment and furniture	2,100,771	224,207	(238,188)	2,086,790
Vehicles	2,540,485	251,183	(29,980)	2,761,688
Total accumulated depreciation	<u>22,370,661</u>	<u>2,011,009</u>	<u>(268,168)</u>	<u>24,113,502</u>
Capital assets, net	<u>\$ 34,725,945</u>	<u>(1,156,261)</u>	<u>(334,428)</u>	<u>33,235,256</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2005**

---

Depreciation expense was charged to functions as follows:

Instruction:	
Regular	\$ 1,284,646
Special	44,699
Other	1,254
Support services:	
Pupil	5,051
Instructional staff	126,653
Administration	70,548
Fiscal	2,984
Business	775
Operation and maintenance of plant	30,598
Pupil transportation	242,178
Central	759
Community service	7,938
Extracurricular activities	144,305
Food service	48,621
	<hr/>
Total depreciation expense	\$ <u>2,011,009</u>

**6. INTERFUND TRANSACTIONS**

During the year ended June 30, 2005, the General Fund made transfers of \$401,753 to non-major governmental funds. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**7. DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

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

## **FOREST HILLS LOCAL SCHOOL DISTRICT**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2005**

---

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. 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 School District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were approximately, \$1,223,000, \$1,123,000, and \$1,075,000, respectively; 45% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. The current portion of the contribution for fiscal year 2005 is recorded as a liability within the respective funds and full liability is recorded on the government-wide financial statements.

#### **State Teachers Retirement System**

The School 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 basis 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 issued 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.

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.

## **FOREST HILLS LOCAL SCHOOL DISTRICT**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2005**

---

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the years ended June 30, 2005, 2004, and 2003 were approximately \$4,477,000, \$4,252,000, and \$4,080,000, respectively; 83% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is recorded as a liability within the respective funds.

#### **Social Security System**

All employees not covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2005, members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

#### **8. POSTEMPLOYMENT BENEFITS**

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

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2005, the board allocated employer contributions equal to 1.00% of covered payroll to the Health Care Reserve Fund. For the School District, this equaled approximately \$320,000 during fiscal year 2005. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254.8 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. 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 year 2005, the minimum pay has been established at \$27,400.

## **FOREST HILLS LOCAL SCHOOL DISTRICT**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2005**

---

The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the year ended June 30, 2005 were \$178.2 million and the target level was \$238.2 million. At June 30, 2005, SERS' net assets available for payment of health care benefits were \$267.5 million. SERS has approximately 58,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits equaled approximately \$300,000 during the 2005 fiscal year.

#### **9. RISK MANAGEMENT**

The School District maintains comprehensive insurance with private carriers for real property, building contents, vehicles and general liability insurance. Vehicle policies include liability coverage for bodily injury and property damage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The GRP is intended to reduce the School District's premium by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

#### **10. EMPLOYEE BENEFITS**

##### **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. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. 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 maximum of 215 days for teachers and 260 days for administrators and classified employees. Upon retirement of certified employees, payment is made for one-half of accrued, but unused sick leave, however, this amount is reduced to only twenty five percent if they do not leave when first eligible.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2005**

---

**11. LONG-TERM OBLIGATIONS**

Long-term liability activity for the year ended June 30, 2005 was as follows:

		Principal Outstanding <u>7/1/04</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>6/30/05</u>	Amounts Due in <u>One Year</u>
<b><i>Governmental Activities:</i></b>						
General obligation bonds	\$	21,660,000	-	(1,210,000)	20,450,000	1,305,000
Add issuance premium		169,935	-	(10,363)	159,572	-
Compensated absences		<u>2,657,371</u>	<u>309,589</u>	<u>(199,385)</u>	<u>2,767,575</u>	<u>475,691</u>
 Total	 \$	 <u>24,487,306</u>	 <u>309,589</u>	 <u>(1,419,748)</u>	 <u>23,377,147</u>	 <u>1,780,691</u>

*Capital Improvement Bonds Payable* - On December 1, 1996, the School District issued \$2,600,000 in voted general obligations bonds paying interest of 6.02% for the purpose of expanding and improving the school facilities. The bonds were partially refunded in 2003 and will be paid in full in 2007. The balance outstanding at June 30, 2005 is \$300,000. The bonds will be retired from the debt service fund.

*Capital Improvement Bonds Payable* - On April 1, 1997, the School District issued \$23,500,000 in voted general obligations bonds for the purpose of constructing a junior high school. The bonds were partially refunded in 2003 and will fully mature in 2011. The balance outstanding at June 30, 2005 is \$8,605,000. The bonds will be retired from the debt service fund.

*School Improvement Refunding Bonds Payable* - On December 1, 2003, School District issued \$11,835,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$11,835,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The balance outstanding at June 30, 2005 is \$11,545,000. The bonds will be retired from the debt service fund and fully mature in 2020.

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$83,884,278 with an unvoted debt margin of \$1,159,270 at June 30, 2005.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2005**

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$	1,305,000	854,694	2,159,694
2007		1,400,000	796,171	2,196,171
2008		1,500,000	726,520	2,226,520
2009		1,620,000	646,199	2,266,199
2010		1,745,000	559,580	2,304,580
2011-2015		9,075,000	3,001,194	12,076,194
2016-2020		3,605,000	1,987,447	5,592,447
2021		<u>200,000</u>	<u>4,250</u>	<u>204,250</u>
Total	\$	<u>20,450,000</u>	<u>8,576,055</u>	<u>29,026,055</u>

**12. JOINTLY GOVERNED ORGANIZATIONS**

*The Hamilton Clermont Cooperative Association/Unified Purchasing Association*

The Hamilton Clermont Cooperative Association/Unified Purchasing Association (H/CCA) is a jointly governed organization among a two-county consortium of school districts. H/CCA is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Board of H/CCA consists of one representative from each of the participating members. The School District paid approximately \$88,000 for services provided during the fiscal year. The Unified Purchasing Cooperative was organized under the Hamilton Clermont Cooperative Association to benefit member districts with a more economically sound purchasing mechanism for general school, office and cafeteria supplies. The Unified Purchasing Cooperative organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue, Cincinnati, Ohio 45231.

*The Great Oaks Institute of Technology and Career Development*

The Great Oaks Institute of Technology and Career Development, a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school district's elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. Great Oaks was formed for the purpose of providing vocational education opportunities to the students of the member school districts, which includes the students of the School District. The School District has no ongoing financial interest in nor responsibility for Great Oaks. To obtain financial information, write to Great Oaks at 3254 East Kemper Road, Cincinnati, Ohio 45241.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2005**

---

**13. INSURANCE PURCHASING POOL**

*Ohio School Boards Association Workers' Compensation Group Rating Plan*

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**14. CONTINGENCIES**

**Grants**

The School 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 School District at June 30, 2005.

**Litigation**

The School District is party to legal proceedings. The School District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**15. REQUIRED SET-ASIDES**

The School District is required by State Statute to annually set aside in the general fund an amount based on the 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. Although no longer required by state statute, a budget stabilization reserve may still be set aside at the discretion of the School District.

**FOREST HILLS LOCAL SCHOOL DISTRICT**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2005**

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 Improvements</u>	<u>Budget Stabilization</u>
Set-aside balance as of June 30, 2004	\$	(3,099,160)	-	250,638
Current year set-aside requirement		1,085,659	1,085,659	-
Less qualifying disbursements and offsets		<u>(1,486,777)</u>	<u>(1,913,796)</u>	<u>-</u>
Total		<u>(3,500,278)</u>	<u>(828,137)</u>	<u>250,638</u>
Balance carried to FY2006	\$	<u>(3,500,278)</u>	<u>-</u>	<u>250,638</u>
Reserve balance as of June 30, 2005	\$	<u>-</u>	<u>-</u>	<u>250,638</u>

The School District had qualifying disbursements during the year that reduced the set aside amounts for textbooks and instructional materials and capital and maintenance to below zero. The extra amounts for textbooks and instructional materials may be used to reduce the set aside requirements of future years.

**16. 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 system 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**17. SIGNIFICANT CONTRACTUAL COMMITMENTS**

As of June 30, 2005, the School District had entered into various construction contracts for renovations and improvements under which it had a remaining unperformed and unpaid total commitment of approximately \$243,000.

## FOREST HILLS LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund  
Balance - Budget and Actual (Non-GAAP Budgetary Basis)

General Fund

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues:</b>				
Taxes	\$ 31,503,473	32,339,473	32,341,706	2,233
Tuition and fees	401,098	436,598	468,534	31,936
Interest	35,287	53,287	61,424	8,137
Intergovernmental	21,944,291	22,064,861	22,228,399	163,538
Other local revenues	<u>3,566,029</u>	<u>3,637,382</u>	<u>3,674,644</u>	<u>37,262</u>
<b>Total revenues</b>	<u>57,450,178</u>	<u>58,531,601</u>	<u>58,774,707</u>	<u>243,106</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	30,042,910	30,146,060	29,690,388	455,672
Special education	6,241,331	6,324,636	6,133,277	191,359
Other instruction	421,402	536,694	521,370	15,324
Support services:				
Pupil	2,562,229	2,484,653	2,433,988	50,665
Instructional staff	4,256,342	4,360,551	4,254,282	106,269
Board of Education	50,511	54,241	45,930	8,311
Administration	4,181,803	4,154,579	4,059,531	95,048
Fiscal	986,491	965,586	951,489	14,097
Business	151,438	151,693	138,768	12,925
Operation and maintenance of plant	5,479,565	5,441,696	5,269,912	171,784
Pupil transportation	3,250,817	3,320,607	3,242,730	77,877
Central	547,556	528,336	459,831	68,505
Non-instructional services:				
Community services	39,830	38,120	35,718	2,402
4C Extracurricular activities	1,267,651	1,303,766	1,272,243	31,523
Capital outlay	<u>-</u>	<u>4,425</u>	<u>4,420</u>	<u>5</u>
<b>Total expenditures</b>	<u>59,479,876</u>	<u>59,815,643</u>	<u>58,513,877</u>	<u>1,301,766</u>
Excess of revenues over expenditures	(2,029,698)	(1,284,042)	260,830	1,544,872
<b>Other financing sources (uses):</b>				
Transfers out	(389,537)	(412,537)	(401,753)	10,784
Other financing sources	-	44,269	45,692	1,423
Other financing uses	(61,360)	(32,495)	(1,951)	30,544
Sale of assets	<u>3,500</u>	<u>3,500</u>	<u>2,046</u>	<u>(1,454)</u>
<b>Total other financing sources (uses):</b>	<u>(447,397)</u>	<u>(397,263)</u>	<u>(355,966)</u>	<u>41,297</u>
Net change in fund balance	(2,477,095)	(1,681,305)	(95,136)	1,586,169
Fund balance, beginning of year	16,967,633	16,967,633	16,967,633	
Prior year encumbrances appropriated	<u>263,461</u>	<u>263,461</u>	<u>263,461</u>	
Fund balance, end of year	\$ <u>14,753,999</u>	<u>15,549,789</u>	<u>17,135,958</u>	

See accompanying notes to required supplemental information.

# FOREST HILLS LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2005

## Note A 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 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General</u>
Net change in fund balance - GAAP Basis	\$ 3,812,621
Increase / (decrease):	
Due to revenues	(4,288,090)
Due to expenditures	584,885
Due to other sources (uses)	43,741
Due to encumbrances	<u>(248,293)</u>
Excess of revenues and other sources over (under) expenditures and other uses - Budget Basis	\$ <u><u>(95,136)</u></u>

**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY  
FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
National School Lunch Program	LL-P4	10.555	\$233,356		\$233,356	
Food Commodities	N/A	10.550	-	\$152,399	-	\$164,987
Total U.S. Department of Agriculture - Nutrition Cluster			<b>233,356</b>	<b>152,399</b>	<b>233,356</b>	<b>164,987</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF	84.027	1,322,384		1,218,452	
Special Education - Preschool Grant	PG-S1	84.173	42,034		42,034	
Total Special Education Cluster			<b>1,364,418</b>	-	<b>1,260,486</b>	-
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	238,050		245,023	
Vocational Education Basic Grants to State	N/A	84.048	12,805		39,875	
Safe and Drug-Free Schools and Communities Grant	DR-S1	84.186	21,558		24,821	
Innovative Education Program Grant	C2-S1	84.298	31,360		30,575	
Education Technology	TJ-S1	84.318	5,942		7,500	
Improving Teacher Quality	TR-S1	84.367	151,874		177,173	
Advanced Placement Program	AV-S1	84.330	416		416	
Total Department of Education			<b>1,826,423</b>	-	<b>1,785,869</b>	-
<b>Totals</b>			<b>\$ 2,059,779</b>	<b>\$ 152,399</b>	<b>\$ 2,019,225</b>	<b>\$ 164,987</b>

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

**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—CHILD NUTRITION CLUSTER**

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

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

**NOTE C -- MATCHING REQUIREMENTS**

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



## **Auditor of State Betty Montgomery**

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

Forest Hills Local School District  
Hamilton County  
7550 Forest Road  
Cincinnati, Ohio 45230

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Forest Hills Local School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

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

#### **Compliance and Other Matters**

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

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

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

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

**Betty Montgomery**  
Auditor of State

March 16, 2006



## Auditor of State Betty Montgomery

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

Forest Hills Local School District  
Hamilton County  
7550 Forest Road  
Cincinnati, Ohio 45230

To the Board of Education:

#### Compliance

We have audited the compliance of Forest Hills Local School District, Hamilton County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

#### Internal Control Over Compliance

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

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

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



**Betty Montgomery**  
Auditor of State

March 16, 2006

**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

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

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

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

None.

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

None.





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 4, 2006**