

Rock Hill Local School District  
Lawrence County  
Single Audit  
July 1, 2004 Through June 30, 2005  
Fiscal Year Audited Under GAGAS: 2005

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Telephone (740) 289-4131  
Fax (740) 289-4131, [www.bhscpas.com](http://www.bhscpas.com)





**Auditor of State  
Betty Montgomery**

Board of Education  
Rock Hill Local School District  
Ironton, Ohio

We have reviewed the *Independent Auditor's Report* of the Rock Hill Local School District, Lawrence County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

May 10, 2006

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**Rock Hill Local School District**  
**Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2005**

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Telephone (740) 289-4131  
Fax (740) 289-3639  
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board  
Rock Hill Local School District  
2325A County Road 26  
Ironton, Ohio 45638-8386

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

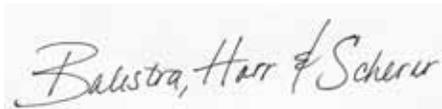
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2005, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No.3, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost Sharing Employers*.

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

Balestra, Harr & Scherer, CPAs, Inc.

April 14, 2006

## **Rock Hill Local School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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The discussion and analysis of the Rock Hill Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

### **FINANCIAL HIGHLIGHTS**

#### **Key financial highlights for the fiscal year 2005 are as follows:**

- Net assets of governmental activities decreased \$1,680,360.
- General revenues accounted for \$12,609,370 in revenue or 70.6 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,245,281 or 29.4 percent of total revenues of \$17,854,651.
- Total assets of governmental activities decreased \$1,968,110 primarily due to the depreciation of capital assets and reductions in cash and cash equivalents and revenue in lieu of taxes receivable.
- The School District had \$19,535,011 in expenses related to governmental activities; only \$5,245,281 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental) of \$12,609,370 were not adequate to provide for these programs.
- The School District has three major funds, the General Fund, the Bond Retirement Debt Service Fund, and the Permanent Improvements Capital Projects Fund. The General Fund had \$13,894,386 in revenues and \$13,597,244 in expenditures. The General Fund's balance increased \$33,142. The Bond Retirement Debt Service Fund had \$18,618 in revenues and \$274,940 in expenditures. The Bond Retirement Debt Service Fund's balance decreased \$256,322. The Permanent Improvements Capital Projects Fund had \$344,750 in revenues and \$856,172 in expenditures. The Permanent Improvements Capital Projects Fund's balance decreased \$511,422.

### **USING THIS ANNUAL FINANCIAL REPORT**

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

# Rock Hill Local School District, Ohio

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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## ***Reporting the School District as a Whole***

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

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, debt service, and extracurricular activities.

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

### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement Debt Service Fund, and the Permanent Improvements Capital Projects Fund.

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

# Rock Hill Local School District, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

## THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

**Table 1**  
**Net Assets**

	Governmental Activities		
	2005	2004	Change
<b>Assets</b>			
Current and Other Assets	\$22,198,242	\$23,201,018	(\$1,002,776)
Capital Assets	42,929,602	43,894,936	(965,334)
Total Assets	65,127,844	67,095,954	(1,968,110)
<b>Liabilities</b>			
Long-Term Liabilities	4,125,226	4,220,037	(94,811)
Other Liabilities	9,753,524	9,946,463	(192,939)
Total Liabilities	13,878,750	14,166,500	(287,750)
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	39,724,602	40,574,936	(850,334)
Restricted	8,285,856	9,139,053	(853,197)
Unrestricted	3,238,636	3,215,465	23,171
Total Net Assets	\$51,249,094	\$52,929,454	(\$1,680,360)

Total assets decreased \$1,968,110. The majority of this decrease was due to reductions in cash and cash equivalents and revenue in lieu of taxes receivable, and the depreciation of capital assets in an amount greater than current year additions. The decrease in cash and cash equivalents is primarily attributable to the near completion of the District's numerous capital projects and the payment of retainage held by the District to the different entities involved with the construction projects. The reduction of revenue in lieu of taxes receivable was due to the payments made to the District during the fiscal year.

Total liabilities decreased \$287,750. This decrease is due to the completion of the School Districts construction projects and the corresponding decreases in both contracts and retainage payable, decreases in deferred revenue due to payments being made for revenue in lieu of taxes receivable, and decreases in long-term liabilities due to the debt service payments made by the District for our new instructional facilities. These decreases were, however, offset by increases in accounts payable, due to increased spending for instructional materials, and increases in accrued wages and benefits payable.

**Rock Hill Local School District, Ohio***Management's Discussion and Analysis**For the Fiscal Year Ended June 30, 2005**Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005, and comparisons to fiscal year 2004.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities	
	2005	2004
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$384,384	\$335,810
Operating Grants, Contributions and Interest	4,820,327	3,695,446
Capital Grants, Contributions and Interest	40,570	94,727
	<u>5,245,281</u>	<u>4,125,983</u>
General Revenue:		
Property Taxes	1,979,602	1,834,521
Grants and Entitlements	9,864,121	10,098,928
Investment Earnings	268,047	199,757
Payment in Lieu of Taxes	336,750	50,000
Miscellaneous	135,850	65,943
Gain on Sale of Capital Assets	25,000	250,000
	<u>12,609,370</u>	<u>12,499,149</u>
Total Revenues	<u>17,854,651</u>	<u>16,625,132</u>
<b>Program Expenses</b>		
Instruction:		
Regular	8,072,892	7,484,796
Special	2,535,719	1,926,844
Vocational	267,710	246,348
Adult/Continuing	0	353
Support Services:		
Pupils	445,635	415,596
Instructional Staff	521,828	457,515
Board of Education	374,127	256,115
Administration	1,012,254	1,000,919
Fiscal	277,417	306,003
Operation and Maintenance of Plant	3,086,240	2,454,970
Pupil Transportation	1,220,259	1,405,952
Central	41,749	36,301
Food Service Operations	1,169,179	892,389
Community Services	0	9,056
Extracurricular Activities	350,450	363,468
Interest and Fiscal Charges	159,552	166,190
Total Expenses	<u>19,535,011</u>	<u>17,422,815</u>
Decrease in Net Assets	(1,680,360)	(797,683)
Net Assets at Beginning of Year	<u>52,929,454</u>	<u>53,727,137</u>
Net Assets at End of Year	<u>\$51,249,094</u>	<u>\$52,929,454</u>

## **Rock Hill Local School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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While the District was able to maintain a stable financial position from fiscal year 1994 through fiscal year 2005, the economic pressures of academic requirements has outpaced available resources. Though revenues increased at a rate of 7.4 percent, or \$1,229,519, expenses increased at an even greater rate. Operating grants, contributions, and interest increased \$1,124,881 due to a \$631,714 increase in state aid through Foundation and food service payments and an increase of \$493,167 in federal funding.

The DeRolph III decision has not eliminated the District's dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increases in value is comparable to other property owners) the effective tax rate would become 0.5 mills and the owner would still pay \$35.00. This legislation helps explain the sizable increase in the District's taxable value accompanied by the relatively small increase in tax revenue. Property taxes made up 11 percent of revenues for governmental activities for Rock Hill Local School District in 2005.

These increases in revenue are more than offset by increases in both regular and special instruction and the operation and maintenance of plant. The increases in both regular and special instruction are due to increases in enrollment in the Child Development Center and base and step increases in salaries. The increase in operation and maintenance of plant is due to increased utility and depreciation expenses.

Net assets of the School District's governmental activities decreased by \$1,680,360 in fiscal year 2005. Program revenues of \$5,245,281 and general revenues of \$12,609,370 did not offset total governmental expenses of \$19,535,011. Program revenues supported 26.8 percent of total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 93.9 percent of total general revenue. Grants and entitlements, alone, represent 78.2 percent of general revenues. Interest income, payments in lieu of taxes, miscellaneous revenues, and the gain on sale of capital assets account for the remaining 6.1 percent.

Instruction comprises approximately 55.6 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 35.7 percent. The remaining 8.7 percent of program expenses is used for other obligations of the School District such as non-instructional service, food service operations, extracurricular activities, and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

# Rock Hill Local School District, Ohio

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

**Table 3  
Governmental Activities**

	2005 Total Cost of Services	2005 Net Cost of Services	2004 Total Cost of Services	2004 Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$8,072,892	\$6,013,985	\$7,484,796	\$5,425,833
Special	2,535,719	1,110,596	1,926,844	935,128
Vocational	267,710	203,374	246,348	187,235
Adult/Continuing	0	0	353	353
Support Services:				
Pupil	445,635	214,762	415,596	375,775
Instructional Staff	521,828	369,688	457,515	348,828
Board of Education	374,127	372,630	256,115	254,735
Administration	1,012,254	1,012,254	1,000,919	1,000,919
Fiscal	277,417	254,317	306,003	306,003
Operation and Maintenance of Plant	3,086,240	2,921,698	2,454,970	2,354,917
Pupil Transportation	1,220,259	792,050	1,405,952	1,253,061
Central	41,749	35,528	36,301	29,203
Food Service Operations	1,169,179	518,098	892,389	356,735
Community Service	0	0	9,056	(548)
Extracurricular Activities	350,450	311,198	363,468	302,465
Interest and Fiscal Charges	159,552	159,552	166,190	166,190
Totals	<u>\$19,535,011</u>	<u>\$14,289,730</u>	<u>\$17,422,815</u>	<u>\$13,296,832</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 67.4 percent of instruction activities are supported through taxes and other general revenues.

## THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,654,826 and expenditures of \$18,843,197.

### *General Fund Budgeting Highlights*

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

During the course of fiscal 2005, the School District amended its general fund appropriations although none of the amendments were significant. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, final budget basis revenue was \$13,817,250, above original estimates of \$13,219,959. This \$597,291 difference was due to deflated intergovernmental estimates, based on the State's budget reduction and higher than expected miscellaneous revenues due to higher insurance reimbursements than was anticipated. Expenditures of \$14,706,604 were considerably lower than original appropriations due to conservative spending practices being followed throughout the School District.

The School District's ending unobligated general fund balance was \$5,327,246.

# Rock Hill Local School District, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2005, the School District had \$42,929,602 invested in land, buildings, furniture and equipment, vehicles, and constructive progress. Table 4 shows fiscal year 2005 balances compared to 2004.

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

	Governmental Activities	
	2005	2004
Land	\$817,657	\$817,657
Construction in Progress	0	737,994
Land Improvements	8,386,762	7,089,767
Buildings and Improvements	32,616,497	33,852,413
Furniture, Fixtures, and Equipment	659,195	791,201
Vehicles	449,491	605,904
Totals	<u>\$42,929,602</u>	<u>\$43,894,936</u>

For addition information on capital assets, see Note 11 to the basic financial statements.

### Debt

At June 30, 2005, the School District had general obligation bonds outstanding of \$3,205,000 issued for the District's school facilities project. For additional information on debt, see Note 15 to the basic financial statements.

## CURRENT ISSUES

The financial future of the School District is not without its challenges. These challenges are external and internal in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes and State subsidies to fund its operations. Due to slow economic growth, the School District does not foresee any sustainable growth in revenue from property taxes or State subsidies. Thus management must diligently plan expenses from the modest growth attained, staying carefully within its five-year forecast. Additional revenues from what was estimated must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast.

Externally, the School District is largely dependent on State funding sources (nearly 80 percent of the School District's operating funds come from State foundation payments and other entitlements). State foundation revenue is fundamentally a function of student enrollment and a district's property tax wealth. The School District has seen a slight decline in student enrollment in recent years and while State revenue growth has shifted toward school districts with low property tax wealth, declining enrollment has served to somewhat offset any increase in State funding.

## **Rock Hill Local School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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Although higher per-pupil funding has helped the School District lessen the impact of increased instructional expenses, much of the positive impact has been offset by other negative financial factors that occurred in the past year (decreasing enrollment, higher insurance costs, and State budget cuts in education). In the long run, the fact is that as long as the State avoids the complete systematic overhaul the Supreme Court ordered in its initial ruling, all schools in Ohio will be faced with the same problem in the future – either increasing its revenues (passing levies) or decreasing its expenses (making budget cuts).

As the preceding information shows, the School District depends upon its taxpayers. Although the Rock Hill Local School District has tightened spending to better bring expenses in line with revenues, and carefully watched financial planning, this must continue if the School District hopes to remain on firm financial footing.

### **CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional financial information, contact Chris Robinson, Treasurer at Rock Hill Local School District, 2273 County Road 26, Ironton, Ohio 45638.

**Rock Hill Local School District, Ohio**

*Statement of Net Assets*

*June 30, 2005*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$12,999,441
Cash and Cash Equivalents in Segregated Accounts	10,469
Materials and Supplies Inventory	9,644
Prepaid Items	198,218
Intergovernmental Receivable	331,366
Revenue in Lieu of Taxes Receivable	5,211,500
Notes Receivable	175,000
Accrued Interest Receivable	9,011
Accounts Receivable	203
Property Taxes Receivable	2,092,930
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	1,160,460
Nondepreciable Capital Assets	817,657
Depreciable Capital Assets, Net	42,111,945
<i>Total Assets</i>	<u>65,127,844</u>
<b>Liabilities</b>	
Accounts Payable	297,875
Accrued Wages and Benefits Payable	1,789,930
Contracts Payable	27,866
Intergovernmental Payable	514,041
Accrued Interest Payable	12,988
Matured Compensated Absences Payable	22,171
Retainage Payable	112,185
Deferred Revenue	6,976,468
Long-Term Liabilities:	
Due within One Year	223,350
Due in More than One Year	3,901,876
<i>Total Liabilities</i>	<u>13,878,750</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	39,724,602
Restricted for:	
Textbooks	366,256
Bus Purchases	669,286
Budget Stabilization	124,918
Other Purposes	328,733
Debt Service	3,064,276
Capital Projects	3,732,387
Unrestricted	3,238,636
<i>Total Net Assets</i>	<u>\$51,249,094</u>

See accompanying notes to the basic financial statements.

**Rock Hill Local School District, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June, 30, 2005

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$8,072,892	\$99,980	\$1,958,927	\$0	(\$6,013,985)
Special	2,535,719	61,047	1,364,076	0	(1,110,596)
Vocational	267,710	0	64,336	0	(203,374)
Support Services:					
Pupils	445,635	0	230,873	0	(214,762)
Instructional Staff	521,828	0	152,140	0	(369,688)
Board of Education	374,127	1,497	0	0	(372,630)
Administration	1,012,254	0	0	0	(1,012,254)
Fiscal	277,417	369	22,731	0	(254,317)
Operation and Maintenance of Plant	3,086,240	113,241	51,301	0	(2,921,698)
Pupil Transportation	1,220,259	0	387,639	40,570	(792,050)
Central	41,749	0	6,221	0	(35,528)
Operation of Non-Instructional Services:					
Food Service Operations	1,169,179	68,998	582,083	0	(518,098)
Extracurricular Activities	350,450	39,252	0	0	(311,198)
Interest and Fiscal Charges	159,552	0	0	0	(159,552)
<i>Totals</i>	<u>\$19,535,011</u>	<u>\$384,384</u>	<u>\$4,820,327</u>	<u>\$40,570</u>	<u>(14,289,730)</u>
<b>General Revenues:</b>					
Property Taxes Levied for:					
General Purposes					1,940,222
Other Purposes					39,380
Grants and Entitlements not Restricted to Specific Programs					9,864,121
Investment Earnings					268,047
Payments in Lieu of Taxes					336,750
Miscellaneous					135,850
Gain on Sale of Capital Assets					25,000
<i>Total General Revenues</i>					<u>12,609,370</u>
<i>Change in Net Assets</i>					(1,680,360)
<i>Net Assets at Beginning of Year</i>					<u>52,929,454</u>
<i>Net Assets at End of Year</i>					<u>\$51,249,094</u>

See accompanying notes to the basic financial statements.

**Rock Hill Local School District, Ohio**

*Balance Sheet*

*Governmental Funds*

*June 30, 2005*

	General	Bond Retirement	Permanent Improvements	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$5,551,457	\$3,077,264	\$3,529,895	\$840,825	\$12,999,441
Cash and Cash Equivalents in Segregated					
Accounts	0	0	0	10,469	10,469
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	1,160,460	0	0	0	1,160,460
Receivables:					
Taxes	2,051,052	0	0	41,878	2,092,930
Revenue in Lieu of Taxes	0	0	5,211,500	0	5,211,500
Accounts	32	0	0	171	203
Intergovernmental	7,480	0	0	323,886	331,366
Notes	0	0	175,000	0	175,000
Interfund	70,043	0	0	0	70,043
Accrued Interest	9,011	0	0	0	9,011
Materials and Supplies Inventory	0	0	0	9,644	9,644
Prepaid Items	155,337	0	0	42,881	198,218
<b>Total Assets</b>	<b>\$9,004,872</b>	<b>\$3,077,264</b>	<b>\$8,916,395</b>	<b>\$1,269,754</b>	<b>\$22,268,285</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$287,119	\$0	\$0	\$10,756	\$297,875
Accrued Wages and Benefits Payable	1,346,992	0	0	442,938	1,789,930
Contracts Payable	27,866	0	0	0	27,866
Intergovernmental Payable	403,092	0	0	110,949	514,041
Matured Compensated Absences Payable	13,393	0	0	8,778	22,171
Retainage Payable	72,959	0	29,226	10,000	112,185
Interfund Payable	0	0	0	70,043	70,043
Deferred Revenue	2,006,168	0	5,211,500	364,899	7,582,567
<b>Total Liabilities</b>	<b>4,157,589</b>	<b>0</b>	<b>5,240,726</b>	<b>1,018,363</b>	<b>10,416,678</b>
<b>Fund Balances</b>					
Reserved for Encumbrances	995,276	0	122,835	221,996	1,340,107
Reserved for Budget Stabilization	124,918	0	0	0	124,918
Reserved for Textbooks	366,256	0	0	0	366,256
Reserved for Bus Purchases	669,286	0	0	0	669,286
Reserved for Property Taxes	44,884	0	0	865	45,749
Reserved for Notes	0	0	150,000	0	150,000
Unreserved, Undesignated, Reported in:					
General Fund	2,646,663	0	0	0	2,646,663
Special Revenue Funds	0	0	0	114,525	114,525
Debt Service Fund	0	3,077,264	0	0	3,077,264
Capital Projects Funds (Deficit)	0	0	3,402,834	(85,995)	3,316,839
<b>Total Fund Balances</b>	<b>4,847,283</b>	<b>3,077,264</b>	<b>3,675,669</b>	<b>251,391</b>	<b>11,851,607</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$9,004,872</b>	<b>\$3,077,264</b>	<b>\$8,916,395</b>	<b>\$1,269,754</b>	<b>\$22,268,285</b>

See accompanying notes to the basic financial statements.

**Rock Hill Local School District, Ohio**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2005*

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<b>Total Governmental Fund Balances</b>		\$11,851,607
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital Assets used in governmental activities are not financial resources are not reported in the funds.		42,929,602
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Property Taxes	282,213	
Grants	<u>323,886</u>	606,099
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Construction Bonds	(3,205,000)	
Accrued Interest Payable	(12,988)	
Compensated Absences Payable	<u>(920,226)</u>	<u>(4,138,214)</u>
Net Assets of Governmental Activities		<u><u>\$51,249,094</u></u>

See accompanying notes to the basic financial statements.

**Rock Hill Local School District, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Bond Retirement	Permanent Improvements	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$1,913,198	\$0	\$0	\$39,524	\$1,952,722
Intergovernmental	11,361,827	0	0	3,192,821	14,554,648
Investment Earnings	260,047	18,618	8,000	3,807	290,472
Tuition and Fees	16,785	0	0	1,097	17,882
Charges for Services	0	0	0	74,637	74,637
Extracurricular	0	0	0	82,381	82,381
Payments in Lieu of Taxes	0	0	336,750	0	336,750
Miscellaneous	342,529	0	0	2,805	345,334
<i>Total Revenues</i>	<u>13,894,386</u>	<u>18,618</u>	<u>344,750</u>	<u>3,397,072</u>	<u>17,654,826</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	5,422,898	0	0	2,075,905	7,498,803
Special	1,940,645	0	0	378,039	2,318,684
Vocational	242,629	0	0	0	242,629
Support Services:					
Pupils	176,118	0	0	235,788	411,906
Instructional Staff	339,139	0	0	133,502	472,641
Board of Education	373,219	0	0	1,500	374,719
Administration	934,826	0	0	0	934,826
Fiscal	262,411	0	0	1,321	263,732
Operation and Maintenance of Plant	2,702,980	0	164,481	96,286	2,963,747
Pupil Transportation	965,096	0	0	0	965,096
Central	31,332	0	0	10,417	41,749
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	1,072,254	1,072,254
Extracurricular Activities	205,951	0	0	81,530	287,481
Capital Outlay	0	0	691,691	28,299	719,990
Debt Service:					
Principal Retirement	0	115,000	0	0	115,000
Interest and Fiscal Charges	0	159,940	0	0	159,940
<i>Total Expenditures</i>	<u>13,597,244</u>	<u>274,940</u>	<u>856,172</u>	<u>4,114,841</u>	<u>18,843,197</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>297,142</u>	<u>(256,322)</u>	<u>(511,422)</u>	<u>(717,769)</u>	<u>(1,188,371)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	25,000	0	0	0	25,000
Transfers In	0	0	0	289,000	289,000
Transfers Out	(289,000)	0	0	0	(289,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(264,000)</u>	<u>0</u>	<u>0</u>	<u>289,000</u>	<u>25,000</u>
<i>Net Change in Fund Balance</i>	33,142	(256,322)	(511,422)	(428,769)	(1,163,371)
<i>Fund Balances at Beginning of Year - Restated (See Note 3)</i>	<u>4,814,141</u>	<u>3,333,586</u>	<u>4,187,091</u>	<u>680,160</u>	<u>13,014,978</u>
<i>Fund Balances at End of Year</i>	<u><u>\$4,847,283</u></u>	<u><u>\$3,077,264</u></u>	<u><u>\$3,675,669</u></u>	<u><u>\$251,391</u></u>	<u><u>\$11,851,607</u></u>

See accompanying notes to the basic financial statements.

**Rock Hill Local School District, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005*

<b>Net Change in Fund Balances - Total Governmental Funds</b>		(\$1,163,371)
<i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:		
Capital Asset Additions	1,009,849	
Depreciation Expense	<u>(1,975,183)</u>	(965,334)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Grants	147,945	
Delinquent Taxes	<u>26,880</u>	174,825
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		115,000
In the statement of activities interest is accrued on outstanding bonds and notes, whereas in governmental funds, interest is expended when due.		388
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Intergovernmental Payable	178,321	
Compensated Absences	<u>(20,189)</u>	<u>158,132</u>
<i>Change in Net Assets of Governmental Activities</i>		<u><u>(\$1,680,360)</u></u>

See accompanying notes to the basic financial statements.

**Rock Hill Local School District, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget and Actual (Budget Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,857,907	\$1,887,521	\$1,887,521	\$0
Intergovernmental	10,959,416	11,361,827	11,361,827	0
Investment Earnings	190,172	260,621	260,621	0
Tuition and Fees	5,790	16,785	16,785	0
Miscellaneous	206,674	290,496	290,496	0
<i>Total Revenues</i>	13,219,959	13,817,250	13,817,250	0
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,164,650	5,523,078	5,523,049	29
Special	2,161,189	1,936,258	1,936,258	0
Vocational	270,934	242,736	242,736	0
Support Services:				
Pupils	422,780	378,778	378,778	0
Instructional Staff	368,640	330,273	330,273	0
Board of Education	770,807	690,583	690,583	0
Administration	1,061,728	951,226	951,226	0
Fiscal	304,810	273,086	273,086	0
Operation and Maintenance of Plant	3,496,989	3,136,713	3,133,031	3,682
Pupil Transportation	1,090,013	976,567	976,567	0
Central	34,972	31,332	31,332	0
Extracurricular Activities	267,529	239,685	239,685	0
<i>Total Expenditures</i>	16,415,041	14,710,315	14,706,604	3,711
<i>Excess of Revenues Under Expenditures</i>	(3,195,082)	(893,065)	(889,354)	3,711
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	0	25,000	25,000	0
Transfers In	3,768	0	0	0
Transfers Out	(984,959)	(289,000)	(289,000)	0
Advances Out	0	(8,996)	(8,996)	0
<i>Total Other Financing Sources (Uses)</i>	(981,191)	(272,996)	(272,996)	0
<i>Net Change in Fund Balance</i>	(4,176,273)	(1,166,061)	(1,162,350)	3,711
<i>Fund Balance at Beginning of Year</i>	5,208,487	5,208,487	5,208,487	0
Prior Year Encumbrances Appropriated	1,281,109	1,281,109	1,281,109	0
<i>Fund Balance at End of Year</i>	\$2,313,323	\$5,323,535	\$5,327,246	\$3,711

See accompanying notes to the basic financial statements.

**Rock Hill Local School District, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2005*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$23,319</u></u>
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**Liabilities**

Due to Students	<u><u>\$23,319</u></u>
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See accompanying notes to the basic financial statements.

## **Rock Hill Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **Note 1 - Description of the School District and Reporting Entity**

Rock Hill Local School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 100 classified employees and 147 certified teaching and administrative personnel who provide services to 1,857 students and other community members.

#### ***Reporting Entity***

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Rock Hill Local School District, this includes general operations, food service, preschool, vocational, 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 School District participates in the South Central Ohio Computer Association and the Pilasco-Ross Special Education Regional Resource Center, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program and the Lawrence County Insurance Purchasing Consortium, which are defined as insurance purchasing pools. These organizations are presented in Notes 16 and 17.

### **Note 2 - Summary of Significant Accounting Policies**

The financial statements of 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

#### ***A. Basis of Presentation***

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

## Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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### Note 2 - Summary of Significant Accounting Policies (Continued)

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

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund. The statements usually distinguish between those activities that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support 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** During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

#### B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

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

**General Fund** The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

**Bond Retirement Debt Service Fund** The Bond Retirement Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

**Permanent Improvements Capital Project Fund** The Permanent Improvement Capital Projects Fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

## Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### **B. Fund Accounting (Continued)**

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

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

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

#### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (revenues) and decreases (expenses) in total net assets.

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

#### **D. Basis of Accounting**

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

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

## Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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### Note 2 - Summary of Significant Accounting Policies (Continued)

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 fiscal 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.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

#### E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The School District has a segregated bank account for the retainage monies. This account is presented on the balance sheet as "cash and cash equivalents in segregated accounts" since they are kept separate from the School District treasury.

During fiscal year 2005, investments were limited to repurchase agreements.

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

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### ***E. Cash and Cash Equivalents (Continued)***

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$260,047, which includes \$146,537 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented as cash and cash equivalents.

#### ***F. Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets include unexpended revenues restricted for the purchase of buses and amounts required by State statute to be set-aside by the School District for textbooks and budget stabilization. See Note 20 for additional information regarding set-asides.

#### ***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which the services are consumed.

#### ***H. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of expendable supplies held for consumption and donated commodities held for resale.

#### ***I. Capital Assets***

All of the School District's capital assets are general capital assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. 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.

## Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### I. Capital Assets (Continued)

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

Description	Estimated Lives
Land and Improvements	20 years
Building and Improvements	50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	5-8 years

#### J. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

#### K. 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.

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 School District records a liability for accumulated unused sick leave for employees after ten years of current service with the School District.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are reported as "matured compensated absences payable" in the fund from which the employees who will receive the payment are paid.

#### L. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the governmental fund financial statements when due.

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### ***M. Fund Balance Reserves***

The School District reserves those portions of fund balance which 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 balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, bus purchases, textbooks, budget stabilization, and notes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for textbooks represents money required to be set-aside by statute for the acquisition of instructional materials. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for notes represents that portion of notes receivable that is not expected to be collected in the next fiscal year and, therefore, not available for appropriation.

#### ***N. Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans and on interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated on the statement of net assets.

#### ***O. Estimates***

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

#### ***P. 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, grantors, or laws or regulations of other governments.

The government-wide statement of net assets reports \$8,285,856 of restricted net assets, of which \$202,874 is restricted by enabling legislation.

Net assets restricted for other purposes include resources restricted for food service operations and music and athletic programs, and federal and state grants restricted for specific purposes.

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

#### ***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The School District had no extraordinary or special items for the fiscal year ended June 30, 2005.

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### ***R. Budgetary Process***

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

The Certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed. Prior to June 30, the Board requested and received an amended certificate in which estimated revenue equaled actual revenue.

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to June 30, the Board passed an appropriation resolution which matched actual expenditures during the fiscal year plus encumbrances outstanding at fiscal year end.

### **Note 3 - Changes in Accounting Principal and Restatement of Prior Year Balances**

For the fiscal year ended June 30, 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefits Expenditures/Expenses and Liabilities by Cost Sharing Employers", and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 modifies the disclosure requirements for deposit and investment risks.

GASB Technical Bulletin No. 2004-2 addresses 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 (OPEB) plans.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets.

In fiscal year 2004, the School District mistakenly accounted for the note issued in the sale of the School District's former middle school facility in the Bond Retirement Debt Service Fund, nor did it include a reservation of fund balance for notes receivable in place of accounting for the outstanding portion of the note receivable as deferred revenue. The note has properly been reclassified to the Permanent Improvements Capital Project Fund, deferred revenue has been reduced, and a reservation of fund balances for the notes receivable has been established. The effect of this change is presented below.

## Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

### Note 3 - Changes in Accounting Principal and Restatement of Prior Year Balances (Continued)

	<u>Bond Retirement</u>	<u>Permanent Improvement</u>
Fund Balances, June 30, 2004	\$3,383,586	\$3,937,091
Notes Receivable Restatement	<u>(50,000)</u>	<u>250,000</u>
Restated Fund Balances, June 30, 2004	<u><u>\$3,333,586</u></u>	<u><u>\$4,187,091</u></u>

### Note 4 – Fund Deficits

The following funds had deficit fund balances as of June 30, 2005:

	<u>Deficit</u>
<b>Special Revenue Funds:</b>	
Food Service	\$9,426
Title VI-B Idea	90,784
Title I	74,544
Title V	8,804
Drug Free Schools	6,698
Title II-A	22,668

These deficits resulted from the recognition of deferred revenue on grants and payables recorded in accordance with Generally Accepted Accounting Principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

### Note 5 - Budgetary Basis of Accounting

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

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

## Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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### Note 5 - Budgetary Basis of Accounting (Continued)

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

Net Change in Fund Balance	
GAAP Basis	\$33,142
Revenue Accruals	(77,136)
Expenditure Accruals	310,518
Prepaid Items:	
Beginning of Year	120,130
End of Year	(155,337)
Advances	(8,996)
Encumbrances	<u>(1,384,671)</u>
Budget Basis	<u><u>(\$1,162,350)</u></u>

### Note 6 - 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 of Education has identified as not required for use within the current five 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.

Interim monies 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 and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

## Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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### Note 6 - Deposits and Investments (Continued)

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**Deposits** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$8,701,053 of the School District's bank balance of \$8,801,053 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments** As of June 30, 2005, the School District had an investment in a Repurchase Agreement which is part of the internal investment pool. The fair value of the Repurchase Agreement was \$6,000,000, and the investment has an average maturity of one day.

**Interest Rate Risk** The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years. The Treasurer cannot make investments which he/she does not reasonably believe can be held until the maturity date. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Rate Risk** The Repurchase Agreement carries a rating of AAA by Standard and Poor's. The School District's investment policy does not further limit its investment choices beyond the State limits.

**Concentration of Credit Risk** The School District places no limit on the amount it may invest in any one issuer and 100% of the School District's total investments is invested in the Repurchase Agreement.

### Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

### Note 7 - Property Taxes (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes.

Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market 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.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lawrence 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 Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, personal property, and public utility taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The late settlements and the amount available as an advance at June 30 are recognized as revenue.

The amount available as an advance at June 30, 2005, was \$44,884 in the General Fund and \$865 in the Classroom Facilities Maintenance Special Revenue Fund.

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

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

	2004 Second Half Collections		2005 First Half Collections	
Real Property	\$58,720,210	65.74%	\$70,290,850	69.04%
Public Utility Tangible Personal Property	14,156,440	15.85%	14,875,356	14.61%
Tangible Personal Property	16,445,064	18.41%	16,642,840	16.35%
Total	\$89,321,714	100.00%	\$101,809,046	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$23.00		\$23.00	

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

### Note 8 - Receivables

Receivables at June 30, 2005, consisted of property taxes, accounts (rents, student fees and tuition), interfund, notes, intergovernmental receivables arising from grants and entitlements, and accrued interest on investments. Notes receivable of \$175,000 are reported in the Permanent Improvements Capital Projects Fund and represent the sale of the School District buildings to Mended Reeds, a service center for at-risk youth. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. The amount not scheduled for collection during the subsequent year is \$150,000. All other receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Title VI-B Idea	\$101,705
Title I	157,666
Title V Innovative Programs	8,611
Drug Free Schools	6,698
Title II-A	31,272
Title II-D	3,865
Title VI-B Rural and Low Income	14,069
E-Rate Reimbursements	<u>7,480</u>
Total	<u><u>\$331,366</u></u>

### Note 9 - Payment in Lieu of Taxes

As provided by State law, the School District has entered into an agreement with a property owner under which real and tangible personal property tax abatements were granted to the property owner. The property owner has agreed to make payments to the School District which reflect all or a portion of the real and tangible personal property taxes which the property owner would have paid if the taxes had not been abated. There is no provision within the agreement which would allow the property owner to reduce payments to the School District due to the changing personal property tax system. The School District received \$336,750 in payments in lieu of taxes for fiscal year 2005. Based upon scheduled payments in this agreement, a receivable and deferred revenue has been recorded in the Permanent Improvements Capital Projects Fund.

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

### Note 10 - Risk Management

#### A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the School District contracted with the Indiana Insurance Company for property, boiler, general liability, fleet, and professional liability insurance. The types and amounts of coverage provided are as follows:

Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$5,000	\$51,607,400
General Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	3,000,000
Products - Completed Operations Aggregate Limit	0	1,000,000
Personal and Advertising Injury Limit - Each Offense	0	1,000,000
Fire Damage Limit - Any One Event	0	500,000
Errors and Omissions:		
Each Occurrence	2,500	1,000,000
Aggregate Limit	2,500	2,000,000
Employers' Liability:		
Each Occurrence	0	1,000,000
Disease - Each Employee	0	1,000,000
Disease - Policy Limit	0	1,000,000
Employee Benefits Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	3,000,000
Hazardous Substances	0	25,000
CFC Refrigeration	0	100,000
Spoilage	0	5,000
Vehicles:		
Bodily Injury:		
Per Person	0	1,000,000
Per Accident	0	1,000,000
Property Damage	0	1,000,000
Uninsured Motorist:		
Per Person	0	1,000,000
Per Accident	0	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been so significant reduction in insurance coverage from fiscal year 2004.

**Rock Hill Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**Note 10 - Risk Management (Continued)**

**B. Workers' Compensation**

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District 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 "equity pooling" arrangement 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. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**Note 11 – Capital Assets**

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

	Balance at 6/30/04	Additions	Deductions	Balance at 6/30/05
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$817,657	\$0	\$0	\$817,657
Construction in Progress	737,994	1,008,062	(1,746,056)	3,492,112
<b>Total Nondepreciable Capital Assets</b>	<b>1,555,651</b>	<b>1,008,062</b>	<b>(1,746,056)</b>	<b>4,309,769</b>
Depreciable Capital Assets:				
Land Improvements	8,321,887	1,746,056	0	10,067,943
Buildings and Improvements	38,723,502	1,787	0	38,725,289
Furniture, Fixtures, and Equipment	1,179,029	0	0	1,179,029
Vehicles	1,941,928	0	(171,438)	2,113,366
<b>Total Depreciable Capital Assets</b>	<b>50,166,346</b>	<b>1,747,843</b>	<b>(171,438)</b>	<b>52,085,627</b>
Less Accumulated Depreciation:				
Land Improvements	(1,232,120)	(449,061)	0	(1,681,181)
Buildings and Improvements	(4,871,089)	(1,237,703)	0	(6,108,792)
Furniture, Fixtures, and Equipment	(387,828)	(132,006)	0	(519,834)
Vehicles	(1,336,024)	(156,413)	171,438	(1,663,875)
<b>Total Accumulated Depreciation</b>	<b>(7,827,061)</b>	<b>(1,975,183) *</b>	<b>171,438</b>	<b>(9,973,682)</b>
Total Capital Assets being Depreciated, Net	42,339,285	(227,340)	0	42,111,945
<b>Capital Assets, Net</b>	<b>\$43,894,936</b>	<b>\$780,722</b>	<b>(\$1,746,056)</b>	<b>\$46,421,714</b>

## Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

### Note 11 – Capital Assets (Continued)

\*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$736,108
Special	279,510
Vocational	27,244
Support Services:	
Pupils	40,866
Instructional Staff	61,385
Administration	115,874
Fiscal	20,519
Operation and Maintenance of Plant	181,270
Pupil Transportation	307,074
Food Service Operation	140,410
Extracurricular Activities	64,923
Total Depreciation Expense	<u>\$1,975,183</u>

### Note 12 - Defined Benefit Pension Plans

#### A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations.

The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$275,071, \$187,229, and \$158,455, respectively; 55.34 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

#### B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **Note 12 - Defined Benefit Pension Plans (Continued)**

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

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

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$867,816, \$838,971, and \$760,931 respectively; 82.75 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$982 made by the School District and \$935 made by the plan members.

#### ***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, no members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

### **Note 13 - Postemployment Benefits**

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

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **Note 13 - Postemployment Benefits (Continued)**

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$66,755 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School District paid \$123,306 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

### **Note 14 - Employee Benefits**

#### ***A. Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days vacation per fiscal year, depending upon length of service, and can accumulate vacation leave without limit. 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 up to a maximum of 225 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave to a maximum of 55 days.

#### ***B. Insurance Benefits***

The School District provides life insurance and accidental death and dismemberment insurance to classified and administrative employees in the amount of \$20,000.

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

### Note 14 - Employee Benefits (Continued)

#### B. Insurance Benefits (Continued)

Health insurance is provided by Cigna Healthcare. Monthly premiums for this coverage are \$1,071.59 for family plans and \$434.15 for single plans. The School District pays 86% of these premiums for certified employees and 95% for classified employees.

### Note 15 - Long Term Obligations

Changes in long-term obligations of the School District during fiscal year 2005 were as follows:

	Outstanding 6/30/04	Additions	Deductions	Outstanding 6/30/05	Due in One Year
<b>Governmental Activities:</b>					
1999 4.97% School Construction					
General Obligation Bonds	\$3,320,000	\$0	\$115,000	\$3,205,000	\$115,000
Compensated Absences	900,037	55,403	35,214	920,226	108,350
Total Governmental Activities Long-Term Liabilities	\$4,220,037	\$55,403	\$150,214	\$4,125,226	\$223,350

The School District issued School Construction General Obligation Bonds for \$3,790,000 as a result of the School District being approved for a \$36,896,293 school facilities loan through the Ohio School Facilities Commission for the construction of a new elementary, middle, and high school. The School District issued the general obligation bonds on April 1, 1999, to provide the local required match for the school facilities loan. As a requirement of the loan, the School District was required to pass a 5.8 mill levy. 5.3 mills will be used to repay the bonds.

Rock Hill Local School District was notified on December 4, 2002, by the Ohio School Facilities Commission that they would not be responsible for repaying the \$36,896,293 school facilities loan to the State. In lieu of the repayment, the School District must set aside .5 mill of the 5.80 mill levy mentioned above for facilities maintenance. As part of this process, the School District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires.

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$115,000	\$155,167	\$270,167
2007	120,000	150,203	270,203
2008	125,000	144,965	269,965
2009	135,000	139,341	274,341
2010	140,000	133,325	273,325
2011-2015	770,000	567,750	1,337,750
2016-2020	1,030,000	335,250	1,365,250
2021-2023	770,000	59,500	829,500
	\$3,205,000	\$1,685,501	\$4,890,501

Compensated absences will be paid from the General Fund and the Food Service, Disadvantaged Pupil Impact Aid, and the Title I Special Revenue Funds.

## **Rock Hill Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **Note 15 - Long Term Obligations (Continued)**

The School District's overall legal debt margin was \$9,035,078, with an unvoted debt margin of \$101,809 at June 30, 2005.

### **Note 16 - Jointly Governed Organizations**

#### ***A. South Central Ohio Computer Association***

The South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. The School District paid \$62,810 for services provided during fiscal year 2005. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

#### ***B. Pilasco-Ross Special Education Regional Resource Center***

The Pilasco-Ross Special Education Regional Resource Center (Pilaso-Ross) is a special education regional resource service center which selects its own board, adopts its own budget, and receives direct Federal and State grants for its operations. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, Shawnee State University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the board. The Rock Hill Local School District's Superintendent is an alternate on the Pilasco-Ross Board. Financial information can be obtained by contacting the fiscal agent, Jim Tordiff, Treasurer, at Dawson-Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

### **Note 17 - Insurance Purchasing Pool**

#### ***A. Ohio School Board Workers' Compensation Group Rating Program***

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.

#### ***B. Lawrence County Insurance Purchasing Consortium***

The School District participates in the Lawrence County Insurance Purchasing Consortium, an insurance purchasing pool. The Consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service centers.

**Rock Hill Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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**Note 18 - Interfund Activity and Balances**

**A. Transfers**

The General Fund made transfers to the Food Service and the Athletics Special Revenue Funds in the amounts of \$250,000 and \$39,000, respectively. These transfers were used to move unrestricted revenue collected in the General Fund to finance various programs accounted for in these other funds in accordance with budgetary authorizations.

**B. Interfund Balances**

Interfund Balances at June 30, 2005, arise from the provision of cash flow resources from the General Fund until the receipt of grant monies by the Special Revenue Funds.

	Interfund Receivables	Interfund Payables
<b>General Fund</b>	\$70,043	\$0
<b>Other Governmental Funds:</b>		
Title VI-B	0	61,047
Title V	0	5,131
Miscellaneous Federal Grants	0	3,865
Total Other Governmental Funds	0	70,043
Total All Funds	\$70,043	\$70,043

**Note 19 - Contingencies**

**A. Grants**

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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.

**B. Litigation**

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

**Note 20 - Set-Aside Calculations**

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

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

**Rock Hill Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**Note 20 - Set-Aside Calculations (Continued)**

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of as of June 30, 2004	\$295,904	(\$134,004)	\$124,918
Current Year Set-Aside Requirement	281,925	281,925	0
Current Year Offsets	0	(41,188)	0
Qualifying Disbursements	<u>(211,573)</u>	<u>(293,951)</u>	<u>0</u>
Totals	<u>\$366,256</u>	<u>(\$187,218)</u>	<u>\$124,918</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$366,256</u>	<u>(\$187,218)</u>	<u>\$124,918</u>
Set-Aside Reserve Balance as of June 30, 2005	<u>\$366,256</u>	<u>\$0</u>	<u>\$124,918</u>

The School District had qualifying expenditures and carry forwards during the fiscal year that reduced the capital improvements set-aside amounts below zero. This extra amount may be used to reduce the set-aside requirements for future years.

Rock Hill Local School District  
Lawrence County

Schedule of Federal Awards Expenditures  
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>United States Department of Agriculture</b>						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	N/A	10.550	\$0	\$62,702	\$0	\$62,702
National School Breakfast Program	05PU	10.553	196,364	0	196,364	0
National School Lunch Program	LLP4	10.555	405,049	0	405,049	0
Summer Food Service Program	24PU	10.559	1,965	0	1,965	0
<b>Total United States Department of Agriculture - Nutrition Cluster</b>			<b>603,378</b>	<b>62,702</b>	<b>603,378</b>	<b>62,702</b>
<b>United States Department of Education</b>						
<i>Passed through Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education Grants to States	6BSF	84.027	261,226	0	299,165	0
Special Education Preschool Grants	PGS1	84.173	13,108	0	15,408	0
Total Special Education Cluster			274,334	0	314,573	0
Title I Grants to Local Education Agencies	C1S1	84.010	929,773	0	887,188	0
Safe & Drug Free Schools State Grants	DRS1	84.186	11,727	0	11,043	0
School Grants for Innovative Programs	C2S1	84.298	3,777	0	21,224	0
Education Technology State Grants	TJS1	84.318	22,576	0	26,441	0
Title VI-B Rural/Low Income	RUS1	84.358	44,642	0	38,711	0
Improving Teacher Quality State Grants	TRS1	84.367	190,128	0	187,520	0
<b>Total United States Department of Education</b>			<b>1,476,957</b>	<b>0</b>	<b>1,486,700</b>	<b>0</b>
<b>Total Federal Financial Assistance</b>			<b>\$2,080,335</b>	<b>\$62,702</b>	<b>\$2,090,078</b>	<b>\$62,702</b>

N/A - Pass Through entity number not available

See Notes to the Schedule of Federal Awards Expenditures.

**ROCK HILL LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – 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 nonmonetary 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.

**BALESTRA, HARR & SCHERER, CPAs, INC.**

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Telephone (740) 289-4131  
Fax (740) 289-3639  
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Members of the Board  
Rock Hill Local School District  
2325A County Road 26  
Ironton, Ohio 45638

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, of the Rock Hill Local School District, Lawrence County, Ohio (the District), which collectively comprise the basic financial statements as of and for the year ended June 30, 2005 and have issued our report thereon dated April 14, 2006, wherein we noted the District adopted Governmental Accounting Standards Board Statement numbers 40 and 46, and GASB Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

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

We noted certain matters that we have reported to the School District's management in a separate letter dated April 14, 2006.

Rock Hill Local School District  
Lawrence County  
Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit Performed in Accordance  
with *Governmental Auditing Standards*  
Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.

April 14, 2006

# BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Fax (740) 289-3639  
www.bhscpas.com

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

Rock Hill Local School District  
Lawrence County  
2325A County Road 26  
Ironton, Ohio 45638

To the Board of Education:

### **Compliance**

We have audited the compliance of the Rock Hill Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

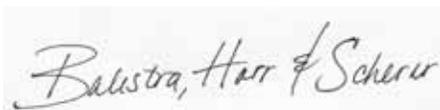
In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2005.

### **Internal Control Over Compliance**

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

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, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Balestra, Harr & Scherer, CPAs, Inc.  
April 14, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505

ROCK HILL LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY  
JUNE 30, 2005

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

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to LEAs, CFDA #84.010 Nutrition Cluster, CFDA #10.550, 10.553, 10.555, 10.559
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505

ROCK HILL LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY  
JUNE 30, 2005

**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

**ROCK HILL LOCAL SCHOOL DISTRICT**

**LAWRENCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 23, 2006**