



Mary Taylor, CPA  
Auditor of State



**ROCK HILL LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Rock Hill Local School District  
Lawrence County  
2325A County Road 26  
Ironton, Ohio 45638-8386

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Rock Hill Local School District, Lawrence County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the 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 January 26, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

January 26, 2007

## Rock Hill Local School District, Ohio

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
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, 2006. 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 2006 are as follows:**

- Net assets of governmental activities decreased \$1,117,151.
- General revenues accounted for \$13,847,363 in revenue or 75.2 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,563,103 or 24.8 percent of total revenues of \$18,410,466.
- Total assets of governmental activities decreased \$5,447,680 primarily as a result of reductions in cash and cash equivalents due to the retirement of the School District's Classroom Facilities Improvement Bonds, and the depreciation of capital assets in an amount greater than the addition of capital assets.
- The School District had \$19,527,617 in expenses related to governmental activities; only \$4,563,103 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental) of \$13,847,363 were not adequate to provide for these programs.

### **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 as the School District's most significant funds with all other non-major funds presented in total in one column.

#### ***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 2006?" 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.

## Rock Hill Local School District, Ohio

*Management's Discussion and Analysis  
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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** All 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.

### **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 2006 compared to 2005.



# Rock Hill Local School District, Ohio

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

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

	Governmental Activities		
	2006	2005	Change
<b>Assets</b>			
Current and Other Assets	\$18,379,217	\$22,198,242	(\$3,819,025)
Capital Assets	41,300,947	42,929,602	(1,628,655)
Total Assets	59,680,164	65,127,844	(5,447,680)
<b>Liabilities</b>			
Long-Term Liabilities	905,853	4,125,226	3,219,373
Other Liabilities	8,642,368	9,753,524	1,111,156
Total Liabilities	9,548,221	13,878,750	4,330,529
<b>Net Assets</b>			
Invested in Capital Assets	41,300,947	39,724,602	1,576,345
Restricted	5,630,138	8,285,856	(2,655,718)
Unrestricted	3,200,858	3,238,636	(37,778)
Total Net Assets	\$50,131,943	\$51,249,094	(\$1,117,151)

Total assets decreased \$5,447,680. 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 retirement of the School District's Classroom Facilities Improvement Bonds in the amount of \$3,205,000. 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 \$4,330,529. This decrease is also primarily due to the retirement of the School District's Classroom Facilities Improvement Bonds in the amount of \$3,205,000. Decreases in accrued wages and benefits payable of \$376,140, deferred revenue of \$556,734, and accounts payable of \$170,316 were somewhat offset by increases of \$93,943 in amounts due to other governments and \$45,660 in matured compensated absences. The decrease noted in accrued wages and benefits is attributable to a change in method of accrual of benefits and from reductions in days wages accrued for all employees in fiscal year 2006 as compared to fiscal year 2005. The reduction in accounts payable was due to conservative spending practices used by the School District. The decrease noted in deferred revenue is due to payments made to the School District for revenue in lieu of taxes receivable. The increase in amounts due to other governments is the result of increases in required retirement contributions rates to the State Teacher Retirement System.

## Rock Hill Local School District, Ohio

*Management's Discussion and Analysis  
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Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, and comparisons to fiscal year 2005.

**Table 2  
Changes in Net Assets**

	Governmental Activities		Change
	2006	2005	
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$333,390	\$384,384	(\$50,994)
Operating Grants, Contributions and Interest	4,207,185	4,820,327	(613,142)
Capital Grants, Contributions and Interest	22,528	40,570	(18,042)
	<u>4,563,103</u>	<u>5,245,281</u>	<u>(682,178)</u>
General Revenue:			
Property Taxes	2,068,341	1,979,602	88,739
Grants and Entitlements	10,854,206	9,864,121	990,085
Investment Earnings	255,406	268,047	(12,641)
Payment in Lieu of Taxes	573,500	336,750	236,750
Miscellaneous	92,210	135,850	(43,640)
Gain on Sale of Capital Assets	3,700	25,000	(21,300)
	<u>13,847,363</u>	<u>12,609,370</u>	<u>1,237,993</u>
Total Revenues	<u>18,410,466</u>	<u>17,854,651</u>	<u>555,815</u>
<b>Program Expenses</b>			
Instruction:			
Regular	7,415,940	8,072,892	656,952
Special	2,690,559	2,535,719	(154,840)
Vocational	281,939	267,710	(14,229)
Support Services:			
Pupils	571,909	445,635	(126,274)
Instructional Staff	850,999	521,828	(329,171)
Board of Education	387,000	374,127	(12,873)
Administration	1,326,622	1,012,254	(314,368)
Fiscal	315,867	277,417	(38,450)
Operation and Maintenance of Plant	2,511,925	3,086,240	574,315
Pupil Transportation	1,385,991	1,220,259	(165,732)
Central	11,153	41,749	30,596
Food Service Operations	1,268,803	1,169,179	(99,624)
Extracurricular Activities	296,785	350,450	53,665
Interest and Fiscal Charges	212,125	159,552	(52,573)
Total Expenses	<u>19,527,617</u>	<u>19,535,011</u>	<u>7,394</u>
Decrease in Net Assets	(1,117,151)	(1,680,360)	563,209
Net Assets at Beginning of Year	<u>51,249,094</u>	<u>52,929,454</u>	<u>(1,680,360)</u>
Net Assets at End of Year	<u>\$50,131,943</u>	<u>\$51,249,094</u>	<u>(\$1,117,151)</u>

While the District was able to maintain a stable financial position from fiscal year 1994 through fiscal year 2006, the economic pressures of academic requirements has outpaced available resources. Though revenues increased at a rate of 3.1 percent, or \$555,815, and expenses decreased slightly from the prior year, expenses continue to outpace revenues.

## Rock Hill Local School District, Ohio

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

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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 11.2 percent of revenues for governmental activities for Rock Hill Local School District in 2006. In addition, operating grants, contributions, and interest decreased \$613,142 entirely due to reduced special education funding in state aid through State Foundation Payments, which has only served to increase the School District's reliance on its residents' property tax payments.

The increases realized in total revenue were not able to reverse the negative trend of annual decreases in net assets of governmental activities carried forward to the succeeding fiscal year. Reductions in regular instruction and the operation and maintenance of plant were offset by increases in special and vocational instruction and most other support service expenses. The reduction in regular instruction is attributable to the decreases in both employee benefits expenditures and depreciation expense. The decreases in the operation and maintenance of plant is due to reduced spending for heating and cooling the School District's facilities, as well as, decreases in depreciation expense.

Net assets of the School District's governmental activities decreased by \$1,117,151 in fiscal year 2006. Program revenues of \$4,563,103 and general revenues of \$13,847,363 did not offset total governmental expenses of \$19,527,617. Program revenues supported 24.8 percent of total governmental expenses.

The primary sources of revenue for governmental activities are derived from restricted and unrestricted grants and property taxes. These revenue sources represent 93 percent of total revenue. Unrestricted grants and entitlements, alone, represent 78.4 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 6.8 percent.

Instruction comprises approximately 53.2 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 37.7 percent. The remaining 9.1 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, 2006  
Unaudited*

**Table 3  
Governmental Activities**

	2006 Total Cost of Services	2006 Net Cost of Services	2005 Total Cost of Services	2005 Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$7,415,940	\$5,552,937	\$8,072,892	\$6,013,985
Special	2,690,559	1,511,191	2,535,719	1,110,596
Vocational	281,939	218,334	267,710	203,374
Support Services:				
Pupils	571,909	484,697	445,635	214,762
Instructional Staff	850,999	422,902	521,828	369,688
Board of Education	387,000	387,000	374,127	372,630
Administration	1,326,622	1,326,586	1,012,254	1,012,254
Fiscal	315,867	266,529	277,417	254,317
Operation and Maintenance of Plant	2,511,925	2,498,295	3,086,240	2,921,698
Pupil Transportation	1,385,991	1,291,610	1,220,259	792,050
Central	11,153	11,153	41,749	35,528
Food Service Operations	1,268,803	544,242	1,169,179	518,098
Extracurricular Activities	296,785	236,913	350,450	311,198
Interest and Fiscal Charges	212,125	212,125	159,552	159,552
Totals	<u>\$19,527,617</u>	<u>\$14,964,514</u>	<u>\$19,535,011</u>	<u>\$14,289,730</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 70.1 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 \$18,558,377 and expenditures of \$21,131,323.

***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 2006, 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 \$14,139,391, below original estimates of \$15,041,844. This \$902,453 difference was due primarily to inflated intergovernmental revenues, based on incorrect assumptions regarding the School District's special education funding. Final budget basis expenditures of \$14,876,761 were considerably lower than original appropriations due to reduced expenditures for employee benefits and conservative spending practices being followed throughout the School District.

The School District's ending unobligated general fund balance was \$5,038,358.

**Rock Hill Local School District, Ohio**

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

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of fiscal year 2006, the School District had \$41,300,947 invested in land, buildings, furniture and equipment, vehicles, and textbooks. Table 4 shows fiscal year 2006 balances compared to 2005.

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$817,657	\$817,657
Land Improvements	8,078,885	8,386,762
Buildings and Improvements	31,448,430	32,616,497
Furniture, Fixtures, and Equipment	640,377	659,195
Vehicles	315,598	449,491
Totals	<u>\$41,300,947</u>	<u>\$42,929,602</u>

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

***Debt***

At June 30, 2006, the School District had no debt outstanding. 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 78 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, 2006  
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 transportation costs, and salary increases). 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 citizen's, 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, Rock Hill Local School District, 2325A County Road 26, Ironton, Ohio 45638.

**Rock Hill Local School District, Ohio**

*Statement of Net Assets*

*June 30, 2006*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$11,148,110
Materials and Supplies Inventory	10,225
Prepaid Items	2,706
Intergovernmental Receivable	218,565
Revenue in Lieu of Taxes Receivable	4,924,700
Notes Receivable	150,000
Accrued Interest Receivable	16,208
Accounts Receivable	17,373
Property Taxes Receivable	1,891,330
Nondepreciable Capital Assets	817,657
Depreciable Capital Assets, Net	<u>40,483,290</u>
<i>Total Assets</i>	<u>59,680,164</u>
<b>Liabilities</b>	
Accounts Payable	127,559
Accrued Wages and Benefits Payable	1,413,790
Contracts Payable	5,470
Intergovernmental Payable	607,984
Matured Compensated Absences Payable	67,831
Deferred Revenue	6,419,734
Long-Term Liabilities:	
Due within One Year	89,826
Due in More than One Year	<u>816,027</u>
<i>Total Liabilities</i>	<u>9,548,221</u>
<b>Net Assets</b>	
Invested in Capital Assets	41,300,947
Restricted for:	
Textbooks	178,984
Bus Purchases	691,814
Budget Stabilization	124,918
Debt Service	3,543
Capital Projects	4,123,459
Other Purposes	507,420
Unrestricted	<u>3,200,858</u>
<i>Total Net Assets</i>	<u><u>\$50,131,943</u></u>

See accompanying notes to the general purpose external financial statements

**Rock Hill Local School District, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June, 30, 2006

	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	\$7,415,940	\$100,512	\$1,762,491	\$0	(\$5,552,937)
Special	2,690,559	99,791	1,079,577	0	(1,511,191)
Vocational	281,939	0	63,605	0	(218,334)
Support Services:					
Pupils	571,909	0	87,212	0	(484,697)
Instructional Staff	850,999	0	428,097	0	(422,902)
Board of Education	387,000	0	0	0	(387,000)
Administration	1,326,622	36	0	0	(1,326,586)
Fiscal	315,867	339	48,999	0	(266,529)
Operation and Maintenance of Plant	2,511,925	1,000	12,630	0	(2,498,295)
Pupil Transportation	1,385,991	0	71,853	22,528	(1,291,610)
Central	11,153	0	0	0	(11,153)
Operation of Non-Instructional Services:					
Food Service Operations	1,268,803	71,840	652,721	0	(544,242)
Extracurricular Activities	296,785	59,872	0	0	(236,913)
Interest and Fiscal Charges	212,125	0	0	0	(212,125)
<b>Totals</b>	<b>\$19,527,617</b>	<b>\$333,390</b>	<b>\$4,207,185</b>	<b>\$22,528</b>	<b>(14,964,514)</b>
<b>General Revenues:</b>					
Property Taxes Levied for:					
General Purposes					2,027,077
Other Purposes					41,264
Grants and Entitlements not Restricted to Specific Programs					10,854,206
Investment Earnings					255,406
Payments in Lieu of Taxes					573,500
Miscellaneous					92,210
Gain on Sale of Capital Assets					3,700
<i>Total General Revenues</i>					<u>13,847,363</u>
<i>Change in Net Assets</i>					(1,117,151)
<i>Net Assets at Beginning of Year</i>					<u>51,249,094</u>
<i>Net Assets at End of Year</i>					<u>\$50,131,943</u>

See accompanying notes to the general purpose external financial statements



**Rock Hill Local School District, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2006*

	General	Bond Retirement	Permanent Improvements	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$5,369,344	\$3,543	\$3,899,939	\$879,568	\$10,152,394
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	995,716	0	0	0	995,716
Receivables:					
Taxes	1,853,770	0	0	37,560	1,891,330
Revenue in Lieu of Taxes	0	0	4,924,700	0	4,924,700
Accounts	17,265	0	0	108	17,373
Intergovernmental	15,840	0	0	202,725	218,565
Interfund	56,993	0	0	0	56,993
Notes	0	0	150,000	0	150,000
Accrued Interest	16,208	0	0	0	16,208
Materials and Supplies Inventory	0	0	0	10,225	10,225
Prepaid Items	2,706	0	0	0	2,706
<b>Total Assets</b>	<b>\$8,327,842</b>	<b>\$3,543</b>	<b>\$8,974,639</b>	<b>\$1,130,186</b>	<b>\$18,436,210</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$108,637	\$0	\$0	\$18,922	\$127,559
Accrued Wages and Benefits Payable	1,115,979	0	0	297,811	1,413,790
Contracts Payable	5,470	0	0	0	5,470
Intergovernmental Payable	463,546	0	0	144,438	607,984
Matured Compensated Absences Payable	36,367	0	0	31,464	67,831
Interfund Payable	0	0	0	56,993	56,993
Deferred Revenue	1,767,730	0	4,924,700	181,792	6,874,222
<b>Total Liabilities</b>	<b>3,497,729</b>	<b>0</b>	<b>4,924,700</b>	<b>731,420</b>	<b>9,153,849</b>
<b>Fund Balances</b>					
Reserved for Encumbrances	675,770	3,500	135,228	206,982	1,021,480
Reserved for Budget Stabilization	124,918	0	0	0	124,918
Reserved for Textbooks	178,984	0	0	0	178,984
Reserved for Bus Purchases	691,814	0	0	0	691,814
Reserved for Property Taxes	101,880	0	0	1,965	103,845
Reserved for Notes	0	0	125,000	0	125,000
Unreserved, Undesignated, Reported in:					
General Fund	3,056,747	0	0	0	3,056,747
Special Revenue Funds	0	0	0	259,012	259,012
Debt Service Fund	0	43	0	0	43
Capital Projects Funds (Deficit)	0	0	3,789,711	(69,193)	3,720,518
<b>Total Fund Balances</b>	<b>4,830,113</b>	<b>3,543</b>	<b>4,049,939</b>	<b>398,766</b>	<b>9,282,361</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$8,327,842</b>	<b>\$3,543</b>	<b>\$8,974,639</b>	<b>\$1,130,186</b>	<b>\$18,436,210</b>

See accompanying notes to the general purpose external financial statements

**Rock Hill Local School District, Ohio**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2006*

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<b>Total Governmental Fund Balances</b>		\$9,282,361
 <b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>		
Capital Assets used in governmental activities are not financial resources are not reported in the funds.		41,300,947
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Property Taxes	292,451	
Grants	<u>162,037</u>	454,488
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.		<u>(905,853)</u>
Net Assets of Governmental Activities		<u><u>\$50,131,943</u></u>

See accompanying notes to the general purpose external 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, 2006*

	General	Bond Retirement	Permanent Improvements	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$2,017,032	\$0	\$0	\$41,071	\$2,058,103
Intergovernmental	11,668,401	0	0	3,528,870	15,197,271
Investment Earnings	246,150	48,497	7,000	2,256	303,903
Tuition and Fees	153,490	0	0	2,146	155,636
Charges for Services	0	0	0	71,840	71,840
Extracurricular Activities	0	0	0	105,914	105,914
Payments in Lieu of Taxes	0	0	573,500	0	573,500
Miscellaneous	92,210	0	0	0	92,210
<i>Total Revenues</i>	<u>14,177,283</u>	<u>48,497</u>	<u>580,500</u>	<u>3,752,097</u>	<u>18,558,377</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	4,732,299	0	0	2,070,634	6,802,933
Special	2,083,886	0	0	363,904	2,447,790
Vocational	256,815	0	0	0	256,815
Support Services:					
Pupils	431,223	0	0	102,588	533,811
Instructional Staff	356,694	0	0	435,261	791,955
Board of Education	387,000	0	0	0	387,000
Administration	1,201,817	0	0	0	1,201,817
Fiscal	291,839	3,001	0	1,295	296,135
Operation and Maintenance of Plant	2,236,576	0	37,096	100,721	2,374,393
Pupil Transportation	1,088,209	0	0	23,437	1,111,646
Central	11,153	0	0	0	11,153
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	1,140,667	1,140,667
Extracurricular Activities	203,754	0	0	85,745	289,499
Capital Outlay	0	0	48,126	7,470	55,596
Debt Service:					
Principal Retirement	0	3,205,000	0	0	3,205,000
Interest and Fiscal Charges	0	225,113	0	0	225,113
<i>Total Expenditures</i>	<u>13,281,265</u>	<u>3,433,114</u>	<u>85,222</u>	<u>4,331,722</u>	<u>21,131,323</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>896,018</u>	<u>(3,384,617)</u>	<u>495,278</u>	<u>(579,625)</u>	<u>(2,572,946)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	3,700	0	0	0	3,700
Transfers In	0	310,896	0	727,000	1,037,896
Transfers Out	(916,888)	0	(121,008)	0	(1,037,896)
<i>Total Other Financing Sources (Uses)</i>	<u>(913,188)</u>	<u>310,896</u>	<u>(121,008)</u>	<u>727,000</u>	<u>3,700</u>
<i>Net Change in Fund Balance</i>	<u>(17,170)</u>	<u>(3,073,721)</u>	<u>374,270</u>	<u>147,375</u>	<u>(2,569,246)</u>
<i>Fund Balances at Beginning of Year</i>	<u>4,847,283</u>	<u>3,077,264</u>	<u>3,675,669</u>	<u>251,391</u>	<u>11,851,607</u>
<i>Fund Balances at End of Year</i>	<u>\$4,830,113</u>	<u>\$3,543</u>	<u>\$4,049,939</u>	<u>\$398,766</u>	<u>\$9,282,361</u>

See accompanying notes to the general purpose external 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, 2006*

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**Net Change in Fund Balances - Total Governmental Funds** (\$2,569,246)

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

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

Capital Asset Additions	347,285	
Depreciation Expense	(1,975,940)	(1,628,655)

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

Grants	(161,849)	
Delinquent Taxes	10,238	(151,611)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 3,205,000

In the statement of activities interest is accrued on outstanding bonds and notes, whereas in governmental funds, interest is expended when due. 12,988

Compensated absences 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. 14,373

***Change in Net Assets of Governmental Activities*** (\$1,117,151)

See accompanying notes to the general purpose external 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, 2006*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$2,085,136	\$1,960,036	\$1,960,036	\$0
Intergovernmental	12,413,143	11,668,401	11,668,401	0
Investment Earnings	254,204	238,953	238,953	0
Tuition and Fees	183,009	172,030	153,490	(18,540)
Miscellaneous	106,352	99,971	86,511	(13,460)
<i>Total Revenues</i>	<u>15,041,844</u>	<u>14,139,391</u>	<u>14,107,391</u>	<u>(32,000)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,595,571	5,370,023	5,370,023	0
Special	2,314,246	2,106,126	2,106,126	0
Vocational	289,588	262,619	262,619	0
Support Services:				
Pupils	452,188	478,305	478,305	0
Instructional Staff	396,938	356,501	356,501	0
Board of Education	822,194	629,370	629,370	0
Administration	1,136,715	1,183,953	1,183,953	0
Fiscal	326,283	306,616	306,616	0
Operation and Maintenance of Plant	3,737,671	2,635,835	2,635,835	0
Pupil Transportation	1,168,461	1,318,870	1,318,870	0
Central	37,303	23,893	23,893	0
Extracurricular Activities	285,363	204,650	204,650	0
<i>Total Expenditures</i>	<u>17,562,521</u>	<u>14,876,761</u>	<u>14,876,761</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,520,677)</u>	<u>(737,370)</u>	<u>(769,370)</u>	<u>(32,000)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	3,937	3,700	3,700	0
Advances In	9,570	8,996	8,996	0
Advances Out	(10,710)	0	0	0
Transfers Out	(370,230)	(916,888)	(916,888)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(367,433)</u>	<u>(904,192)</u>	<u>(904,192)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(2,888,110)	(1,641,562)	(1,673,562)	(32,000)
<i>Fund Balance at Beginning of Year</i>	5,327,249	5,327,249	5,327,249	0
Prior Year Encumbrances Appropriated	1,384,671	1,384,671	1,384,671	0
<i>Fund Balance at End of Year</i>	<u>\$3,823,810</u>	<u>\$5,070,358</u>	<u>\$5,038,358</u>	<u>(\$32,000)</u>

See accompanying notes to the general purpose external financial statements

**Rock Hill Local School District, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2006*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$18,640</u></u>
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**Liabilities**

Due to Students	<u><u>\$18,640</u></u>
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See accompanying notes to the general purpose external financial statements

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

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

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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 authorized by State statute and federal guidelines. 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, the Pilasco-Ross Special Education Regional Resource Center, and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program and the Ohio School Plan, 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, 2006

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**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 two categories of funds utilized by the School District: governmental 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 Projects Fund** The Permanent Improvements 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, 2006*

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

***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, 2006*

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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, 2006, but which were levied to finance fiscal year 2007 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".

During fiscal year 2006, investments were limited to a repurchase agreement which is reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest is credited to the General Fund, the Bond Retirement Debt Service Fund, and the Permanent Improvements and Classroom Facilities Capital Projects Funds. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$246,150, which includes \$130,675 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.

## Rock Hill Local School District, Ohio

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

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### **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 21 for additional information regarding set-asides.

### **G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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.

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:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	5-8 years

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

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

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### ***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 are 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.

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

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

## Rock Hill Local School District, Ohio

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

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### **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 \$5,630,138 of restricted net assets, of which none 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. Budgetary Process**

All funds, other than the agency funds, 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.

## Rock Hill Local School District, Ohio

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

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.

### **R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

### **Note 3 - Changes in Accounting Principals**

For the fiscal year ended June 30, 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of this statement had no effect on the financial statements.

### **Note 4 – Fund Deficits**

The following funds had deficit fund balances as of June 30, 2006:

	<u>Deficit</u>
<b>Special Revenue Funds:</b>	
Schoolnet Professional Development	\$170
Poverty Based Assistance	99,826
Title VI-B Idea	63,557
Title I	51,990
Title II-A	8,131

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) 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:

## Rock Hill Local School District, Ohio

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

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).

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	(\$17,170)
Revenue Accruals	(69,892)
Expenditure Accruals	(421,425)
Prepaid Items:	
Beginning of Year	155,337
End of Year	(2,706)
Advances	8,996
Encumbrances	<u>(1,326,702)</u>
Budget Basis	<u><u>(\$1,673,562)</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 held by the School District can 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;

## Rock Hill Local School District, Ohio

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

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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;
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, \$3,626,659 of the School District's bank balance of \$3,726,659 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 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, 2006, the School District had an investment in a Repurchase Agreement. The fair value of the Repurchase Agreement was \$8,000,000, and the investment has an average maturity of one day. The Repurchase agreement is invested in the following underlying securities:



## Rock Hill Local School District, Ohio

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

	Carrying Value	Percentage of Investment
Federal National Mortgage Association Discount Notes	\$1,536,993	19.21%
Federal Farm Credit Bank Notes	2,052,506	25.66%
Federal Home Loan Mortgage Corporation Discount Notes	1,431,981	17.90%
Federal Home Loan Bank Notes	1,431,981	17.90%
US Treasury Notes	1,546,539	19.33%
<b>Totals</b>	<b>\$8,000,000</b>	<b>100.00%</b>

**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. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily. The stated intent of the investment policy is to avoid the need to sell securities prior to maturity.

**Custodial Credit Risk** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The underlying securities for the repurchase agreement are exposed to custodial credit risk in that the security is held by the counterparty's trust department or agency.

**Credit Rate Risk** The Repurchase Agreement's underlying securities all carry a rating of AAA by Standard and Poor's. The School District's investment policy does not further limit its investment choices beyond State statute.

**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.

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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.

## Rock Hill Local School District, Ohio

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

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. 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 County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, tangible personal property, and public utility taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, 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 amount available as an advance at June 30, 2006, was \$101,880 in the General Fund and \$1,965 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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
Real Property	\$70,290,850	69.04%	\$70,654,070	68.64%
Public Utility Tangible Personal Property	14,875,356	14.61%	15,173,022	14.74%
Tangible Personal Property	16,642,840	16.35%	17,100,740	16.61%
Total	\$101,809,046	100.00%	\$102,927,832	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, 2006

### Note 8 - Receivables

Receivables at June 30, 2006, consisted of property taxes, accounts (rents, student fees, and tuition), interfund, notes, intergovernmental receivables arising from grants and entitlements, revenue in lieu of taxes, and accrued interest on investments. Notes receivable of \$150,000 are reported in the Permanent Improvements Capital Projects Fund and represents the sale of a School District building to Mended Reeds, a service center for at-risk youth. The note will be retired through annual payments of \$25,000. 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 fiscal year is \$125,000. 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>
School Lunch and Breakfast Program	\$56,528
Title VI-B Idea	75,797
Title I	63,498
Title II-A	6,902
E-Rate Reimbursements	15,840
Total	<u>\$218,565</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 agreement provided for a total payout of \$9,635,000 over a 12 year period ending in fiscal year 2015. The School District received \$573,500 in payments in lieu of taxes for fiscal year 2006. Based upon scheduled payments in this agreement, a receivable and deferred revenue has been recorded in the Permanent Improvements Capital Projects Fund.

### 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 2006, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 17).

## Rock Hill Local School District, Ohio

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

The types and amounts of coverage provided by the Ohio School Plan are as follows:

Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$1,000	\$50,079,610
General Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	3,000,000
Sexual Abuse	0	1,000,000
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
Medical Expense:		
Any One Person	0	10,000
Any One Accident	0	10,000
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	250,000
CFC Refrigeration	0	250,000
Spoilage	0	250,000
Vehicles:		
Bodily Injury:		
Per Person	0	2,000,000
Per Accident	0	2,000,000
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 2005.

## Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

### **B. Workers' Compensation**

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (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, 2006, was as follows:

	Balance at 6/30/05	Additions	Deductions	Balance at 6/30/06
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$817,657	\$0	\$0	\$817,657
Depreciable Capital Assets:				
Land Improvements	10,067,943	187,963	0	10,255,906
Buildings and Improvements	38,725,289	71,865	0	38,797,154
Furniture, Fixtures, and Equipment	1,179,029	87,457	0	1,266,486
Vehicles	1,770,490	0	118,499	1,651,991
Total Depreciable Capital Assets	51,742,751	347,285	118,499	51,971,537
Less Accumulated Depreciation:				
Land Improvements	1,681,181	495,840	0	2,177,021
Buildings and Improvements	6,108,792	1,239,932	0	7,348,724
Furniture, Fixtures, and Equipment	519,834	106,275	0	626,109
Vehicles	1,320,999	133,893	118,499	1,336,393
Total Accumulated Depreciation	9,630,806	1,975,940 *	118,499	11,488,247
Total Capital Assets being Depreciated, Net	42,111,945	(1,628,655)	0	40,483,290
Capital Assets, Net	\$42,929,602	(\$1,628,655)	\$0	\$41,300,947

## Rock Hill Local School District, Ohio

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

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

Instruction:	
Regular	\$681,976
Special	278,188
Vocational	26,494
Support Services:	
Pupils	39,741
Instructional Staff	59,530
Administration	112,518
Fiscal	19,789
Operation and Maintenance of Plant	156,625
Pupil Transportation	287,693
Food Service Operations	136,632
Extracurricular Activities	176,754
Total Depreciation Expense	<u>\$1,975,940</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, by calling (614)878-5853, or by visiting the SERS Web site at [www.ohsers.org](http://www.ohsers.org), under forms and publications.

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 2006, 10.58 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, 2006, 2005, and 2004, were \$285,664, \$275,071, and \$187,229, respectively; 47.49 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

#### 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, 2006*

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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, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. 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, 2006, 2005, and 2004, were \$942,390, \$867,816, and \$838,971 respectively; 84.08 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$504 made by the School District and \$4,910 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, 2006, all 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 partial 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, 2006*

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All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$72,492 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$128,920.

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 the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2005, (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive 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 up to a maximum of three years accrual. 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.



## Rock Hill Local School District, Ohio

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

### **B. Insurance Benefits**

Health insurance is provided by Medical Mutual. Monthly premiums for this coverage are \$1,359 for family plans and \$550.28 for single plans. The School District pays 86% of these premiums for certificated employees and 95% for classified employees.

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Anthem Life Insurance in the amount of \$20,000.

### **Note 15 – Long – Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2006 were as follows:

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Amounts Due in One Year
<b>Governmental Activities:</b>					
1999 4.97% Classroom Facilities Improvements Bonds	\$3,205,000	\$0	\$3,205,000	\$0	\$0
Compensated Absences	920,226	67,707	82,080	905,853	89,826
Total Governmental Activities Long-Term Liabilities	<u>\$4,125,226</u>	<u>\$67,707</u>	<u>\$3,287,080</u>	<u>\$905,853</u>	<u>\$89,826</u>

The compensated absences payable will be paid from the fund from which the employees' salaries are paid, which includes the General Fund, and the Food Service, Poverty Based Assistance, and the Title I Special Revenue Funds.

On April 18, 2006, the School District entered into an irrevocable escrow deposit agreement related to the defeasance of the 1999 Classroom Facilities Improvement Bonds. The School District irrevocably placed \$3,235,672 with U.S. Bank National Association (the escrow agent) to be used to acquire United States Treasury Securities – State and Local Government Series (SLGS) which will be deposited into an Escrow Fund.

The escrow fund, including all income derived from the investment of the escrow obligations, will be held by the escrow agent and shall be used solely to pay principal and interest on the 1999 bonds when due through and until December 1, 2009, to redeem on December 1, 2009, at a price of 102% of the principal amount, the 1999 bonds maturing on December 1, 2010 through December 1, 2014 and December 1, 2022, and to continue to pay principal and interest on the 1999 bonds maturing on December 1, 2015 through December 1, 2018 until their final maturity.

The School District's overall legal debt margin was \$7,727,629, with an unvoted debt margin of \$858,625 at June 30, 2006.

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

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

---

### **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 \$51,755 for services provided during fiscal year 2006. 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 (Pilasco-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. The Dawson Bryant Local School District serves as the fiscal agent for Pilasco-Ross. Financial information can be obtained by contacting, Jim Tordiff, Treasurer, at Dawson-Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

#### ***C. Coalition of Rural and Appalachian Schools***

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$345 for fiscal year 2006.

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

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

---

### **Note 17 - Insurance Purchasing Pools**

#### ***A. Ohio School Boards Association 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. Ohio School Plan***

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member school districts.

### **Note 18 - Interfund Activity and Balances**

#### ***A. Transfers***

The General Fund made transfers to the Bond Retirement Debt Service Fund in the amount of \$189,888, and to the Food Service and District Managed Activities Special Revenue Funds in the amounts of \$700,000 and \$27,000, respectively. The Permanent Improvements Capital Project Fund made a transfer of \$121,008 to the Bond Retirement Debt Service Fund.

The transfers were used to move unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and to move money into the Bond Retirement Debt Service Fund for the repayment of the School District's Classroom Facilities Improvement Bonds.

#### ***B. Interfund Balances***

Interfund Balances at June 30, 2006, arise from the provision of cash flow resources from the General Fund until the receipt of grant monies by the Special Revenue Funds.

**Rock Hill Local School District, Ohio**

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

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<b>General Fund</b>	\$56,993	\$0
<b>Other Governmental Funds:</b>		
Schoolnet Professional Development	0	2,395
Title VI-B Idea	0	54,598
Total Other Governmental Funds	0	56,993
Total All Funds	<u>\$56,993</u>	<u>\$56,993</u>

**Note 19 – Contractual Commitments**

As of June 30, 2006, the School District’s contractual purchase commitments for the completion of the middle school locker project are as follows:

<u>Funds</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 06/30/06</u>
General Fund	\$7,912	\$5,470	\$2,442
Permanent Improvements Capital Projects Fund	82,386	0	82,386
	<u>\$90,298</u>	<u>\$5,470</u>	<u>\$84,828</u>

**Note 20 - 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, 2006.

**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.

## Rock Hill Local School District, Ohio

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

### Note 21 - 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.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the school district's general fund or may be left in the account and used by the board to offset any budget deficit the school district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. During fiscal year 2002, the Board of Education passed a resolution to maintain only the refunds from the Bureau of Workers' Compensation in the budget reserve pursuant to State Statute and at June 30, 2006 this is all that continues to be set-aside.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of as of June 30, 2005	\$366,256	(\$187,218)	\$124,918
Current Year Set-Aside Requirement	276,572	276,572	0
Current Year Offsets	0	(44,104)	0
Qualifying Disbursements	<u>(463,844)</u>	<u>(54,811)</u>	<u>0</u>
Totals	<u>\$178,984</u>	<u>(\$9,561)</u>	<u>\$124,918</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$178,984</u>	<u>(\$9,561)</u>	<u>\$124,918</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$178,984</u>	<u>\$0</u>	<u>\$124,918</u>

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

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**ROCK HILL LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR JUNE 30, 2006**

<b>FEDERAL GRANTOR/ Pass Through Grantor Program Title</b>	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Donation	N/A	10.550	\$	\$ 66,477	\$	\$ 66,477
Nutrition Cluster:						
School Breakfast Program	05PU-2005 05PU-2006	10.553	27,125 139,256		27,125 139,256	
Total School Breakfast Program			166,381	0	166,381	0
National School Lunch Program	LLP1-2005 LLP1-2006 LLP4-2005 LLP4-2006	10.555	1,104 3,745 59,437 272,990		1,104 3,745 59,437 272,990	
Total National School Lunch Program			337,276	0	337,276	0
Summer Food Service Program for Children	23PU-2005 24PU-2005	10.559	962 101		962 101	
Total Summer Food Service Program for Children			1,063	0	1,063	0
Total Nutrition Cluster			504,720	0	504,720	0
Total U.S. Department of Agriculture			504,720	66,477	504,720	66,477
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2005 C1S1-2006	84.010	157,665 716,660		200,391 681,550	
Total Title I Grants to Local Educational Agencies			874,325	0	881,941	0
Special Education Cluster:						
Special Education Grants to States	6BSF-2005 6BSF-2006	84.027	101,706 393,956		104,669 368,026	
Total Special Education Grants to States			495,662	0	472,695	0
Special Education - Preschool Grants	PGS1-2005 PGS1-2006	84.173	14,263		214 9,824	
Total Special Education - Preschool Grants			14,263	0	10,038	0
Total Special Education Cluster			509,925	0	482,733	0
Safe and Drug-Free Schools and Communities State Grants	DRS1-2005 DRS1-2006	84.186	6,698 22,719		8,812 20,861	
Total Safe and Drug-Free Schools and Communities State Grants			29,417	0	29,673	0
State Grants for Innovative Programs	C2S1-2005 C2S1-2006	84.298	8,611 6,336		8,611 6,035	
Total State Grants for Innovative Programs			14,947	0	14,646	0
Education Technology State Grants	TJS1-2005 TJS1-2006	84.318	3,865 15,399		3,865 14,067	
Total Education Technology State Grants			19,264	0	17,932	0
Rural Education	RUS1-2005 RUS1-2006	84.358	14,069 57,849		20,000 57,785	
Total Rural Education			71,918	0	77,785	0
Improving Teacher Quality State Grants	TRS1-2005 TRS1-2006	84.367	31,272 183,542		34,895 164,796	
Total Improving Teacher Quality State Grants			214,814	0	199,691	0
Total U.S. Department of Education			1,734,610	0	1,704,401	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$ 2,239,330</b>	<b>\$ 66,477</b>	<b>\$ 2,209,121</b>	<b>\$ 66,477</b>

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**ROCK HILL LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
JUNE 30, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DONATION**

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

**NOTE C – CHILD NUTRITION CLUSTER**

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





# Mary Taylor, CPA

## Auditor of State

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

Rock Hill Local School District  
Lawrence County  
2325A County Road 26  
Ironton, Ohio 45638-8386

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 School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated January 26, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-001. In a separate letter to the School District's management dated January 26, 2007, we reported other matters related to noncompliance we deemed immaterial.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701-2157  
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

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

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

**Mary Taylor, CPA**  
Auditor of State

January 26, 2007



# Mary Taylor, CPA

## Auditor of State

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

Rock Hill Local School District  
Lawrence County  
2325A County Road 26  
Ironton, Ohio 45638-8386

To the Board of Education:

#### Compliance

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

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

#### Internal Control Over Compliance

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

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Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110  
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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated January 26, 2007.

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

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

**Mary Taylor, CPA**  
Auditor of State

January 26, 2007

**ROCK HILL LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

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

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

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

**FINDING NUMBER 2006-001**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.10 requires that money paid into any fund shall be used only for the purposes of which such fund is established.

Deficit fund balances existed throughout the year as follows:

**ROCK HILL LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

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

**FINDING NUMBER 2006-001 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.10 (Continued)**

Month	Fund	Balance	Month	Fund	Balance
July	006 Food Service	\$ (24,936)	August	006 Food Service	\$ (70,148)
	516 IDEA Part B	(19,698)		516 IDEA Part B	(30,922)
	572 Title I	(44,712)		572 Title I	(101,665)
	573 Title V	(3,673)		573 Title V	(8,804)
	584 Drug Free Grant	(6,698)		584 Drug Free Grant	(6,698)
	590 Improving Teacher Quality	(16,715)		590 Improving Teacher Quality	(31,019)
September	006 Food Service	(152,455)	October	006 Food Service	(258,545)
	516 IDEA Part B	(71,216)		572 Title I	(155,914)
	572 Title I	(233,601)		584 Drug Free Grant	(1,084)
	573 Title V	(7,994)		590 Improving Teacher Quality	(27,495)
	584 Drug Free Grant	(6,448)		599 Misc. Federal Grants	(14,443)
	590 Improving Teacher Quality	(45,276)			
November	006 Food Service	(267,953)	December	006 Food Service	(310,602)
	516 IDEA Part B	(37,746)		460 Summer Intervention	(1,384)
	572 Title I	(204,397)		516 IDEA Part B	(52,931)
	584 Drug Free Grant	(1,084)		584 Drug Free Grant	(1,084)
	590 Improving Teacher Quality	(42,206)		590 Improving Teacher Quality	(64,543)
	599 Misc. Federal Grants	(14,443)			
January	460 Summer Intervention	(1,384)	February	460 Summer Intervention	(1,384)
	590 Improving Teacher Quality	(19,923)		572 Title I	(44,197)
	599 Misc. Federal Grants	(9,088)		590 Improving Teacher Quality	(33,458)
				599 Misc. Federal Grants	(9,088)
March	460 Summer Intervention	(1,384)	April	460 Summer Intervention	(1,384)
	572 Title I	(92,704)		516 IDEA Part B	(36,036)
	573 Title V	(1,772)		573 Title V	(2,115)
	590 Improving Teacher Quality	(29,209)		590 Improving Teacher Quality	(51,537)
	599 Misc. Federal Grants	(26,930)		599 Misc. Federal Grants	(31,869)
May	516 IDEA Part B	(48,477)			
	572 Title I	(32,648)			
	573 Title V	(3,552)			
	584 Drug Free Grant	(852)			
	587 IDEA	(1,632)			

**ROCK HILL LOCAL SCHOOL DISTRICT  
LAWRENCE COUNTY**

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

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

**FINDING NUMBER 2006-001 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.10 (Continued)**

Since the School District used a cash pool for all of its funds, a deficit cash balance indicates cash from one fund was used to pay the obligation of another.

We recommend the School District not pay obligations of one fund with monies from another fund. We also recommend the Board of Education take steps to control spending or increase revenue sources in these funds to help prevent the deficit fund cash balances, and closely review the School District's financial activity. This review should include beginning fund balances, receipts, disbursements, and ending fund balances, on a monthly basis, as well as budgeted and actual revenues and expenditures.

**Client Response:**

The Rock Hill Local School District has decided that it is not effective to continually advance monies to the food service fund and federal programs while waiting for these grant draw downs. The time lapse for draw downs can sometimes be between two to four weeks.

**3. FINDINGS FOR FEDERAL AWARDS**

None.







Mary Taylor, CPA  
Auditor of State

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  
MARCH 22, 2007