



Mary Taylor, CPA
Auditor of State

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Hardin Houston Local School District
Shelby County
5300 Houston Road
Houston, Ohio 45333

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 Hardin Houston Local School District, Shelby County, (the District), as of and for the years ended June 30, 2006, and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position the of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin Houston Local School District, Shelby County, as of June 30, 2006, and 2005 and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the years ended June 30, 2006, and 2005, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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.

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

February 7, 2007

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

This discussion and analysis of the Hardin Houston 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, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2006 are as follows:

- Net assets of governmental activities increased 13% or \$301,108 from prior year.
- The School District's general receipts are primarily property and income taxes and intergovernmental receipts. Property and income taxes represent 31 percent of receipts. Grants and entitlements not restricted to specific programs represent another 52 percent of receipts.
- Of the School District's \$7,815,624 in cash disbursements, only \$1,273,334 or 16 percent of the disbursements were offset by program receipts.
- Among major funds, the General Fund had \$7,241,977 in receipts and \$6,889,542 in disbursements. The General Fund's balance increased \$352,435 over 2005.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. The School District also reports long-term investments as assets, valued at cost.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as 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, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund, the Bond Retirement Fund and the Permanent Improvement Capital Projects Fund.

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2006 compared to fiscal year 2005 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Equity in Pooled Cash		
and Cash Equivalents	\$2,653,396	\$2,352,288
Net Assets		
Restricted for:		
Capital Projects	\$707,667	\$769,142
Debt Service	307,861	301,121
School Bus Purchases	34,321	27,152
Other Purposes	75,255	71,847
Unrestricted	1,528,292	1,183,026
Total Net Assets	\$2,653,396	\$2,352,288

As mentioned previously, net assets of governmental activities increased \$301,108 during fiscal year 2006. Unrestricted net assets increased \$345,266 as a result of general operating receipts exceeding disbursements. Equity in Pooled Cash and Cash Equivalents increased due to increases in the General Fund.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2006 and fiscal year 2005.

**(Table 2)
Changes in Net Assets**

	Governmental Activities 2006	Governmental Activities 2005
Receipts:		
Program Receipts:		
Charges for Services	\$889,024	\$842,039
Operating Grants and Contributions	366,517	406,635
Capital Grants and Contributions	17,793	11,540
Total Program Receipts	<u>1,273,334</u>	<u>1,260,214</u>
General Receipts:		
Property Taxes	1,883,672	1,699,383
Income Taxes	620,344	566,614
Grants and Entitlements Not Restricted to Specific Programs	4,209,650	3,933,366
Interest and Miscellaneous	129,732	63,258
Total General Receipts	<u>6,843,398</u>	<u>6,262,621</u>
Total Receipts	<u>8,116,732</u>	<u>7,522,835</u>
Disbursements:		
Instruction	4,626,382	4,422,700
Support Services:		
Pupils and Instructional Staff	715,805	700,500
Board of Education, Administration, Fiscal and Business	731,800	673,054
Operation and Maintenance of Plant	724,886	559,297
Pupil Transportation	543,815	513,214
Central	3,550	7,153
Operation of Non-Instructional Services	227,199	238,757
Extracurricular Activities	154,823	163,448
Capital Outlay	28,078	9,142
Debt Service	59,286	61,192
Total Disbursements	<u>7,815,624</u>	<u>7,348,457</u>
Increase in Net Assets	301,108	174,378
Net Assets, Beginning of Year	<u>2,352,288</u>	<u>2,177,910</u>
Net Assets, End of Year	<u>\$2,653,396</u>	<u>\$2,352,288</u>

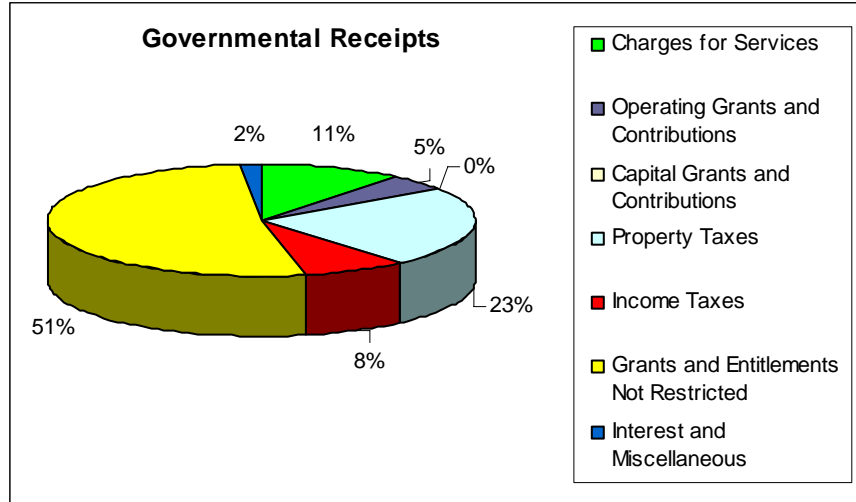
During fiscal year 2006, the School District had an 8% increase in revenues. Expenses also increased during fiscal year 2006; however, fiscal year revenues were able to cover the expenses without decreasing net assets. Contributing to the 6% growth in overall expenses were increases in salaries, adding a security officer, increases in gas and fuel costs, and increases in health care costs.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

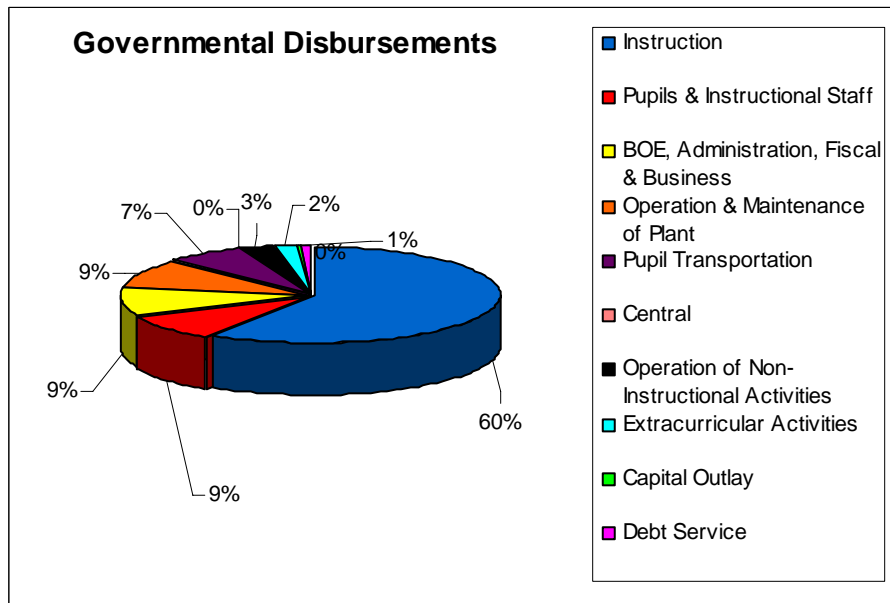
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property taxes make up 23% of receipts while income taxes add an additional 8% of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies.



Instruction comprises 60% of the School District's disbursements. Support services make up 34% of disbursements.



**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

If you look at the statement of activities on page 12, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the statement entitled program cash receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net receipt (disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2006	Net Cost of Services 2006	Total Cost Of Services 2005	Net Cost of Services 2005
Instruction	\$4,626,382	(\$3,883,996)	\$4,422,700	(\$3,691,580)
Support Services:				
Pupils and Instructional Staff	715,805	(482,261)	700,500	(487,479)
Board of Education, Administration, Fiscal and Business	731,800	(731,800)	673,054	(671,679)
Operation and Maintenance of Plant	724,886	(724,886)	559,297	(549,433)
Pupil Transportation	543,815	(531,997)	513,214	(498,617)
Central	3,550	(3,550)	7,153	(5,483)
Operation of Non-Instructional Services	227,199	6,634	238,757	(7,159)
Extracurricular Activities	154,823	(103,070)	163,448	(106,479)
Capital Outlay	28,078	(28,078)	9,142	(9,142)
Debt Service	59,286	(59,286)	61,192	(61,192)
Total Disbursements	\$7,815,624	(\$6,542,290)	\$7,348,457	(\$6,088,243)

The dependence upon state foundation and property and income tax receipts is apparent as over 83 percent of governmental activities are supported through these general receipts.

The School District's Funds

The governmental funds had receipts of \$8,111,717 and disbursements of \$7,815,624. The fund balance of the General Fund increased \$352,435. Property tax revenue in the general fund increased approximately \$184,000 and intergovernmental revenue, which is largely made up of state foundation, increased approximately \$272,000.

The fund balance of the Bond Retirement Fund increased \$6,740, as a result of receipts from property taxes exceeding debt payments. The fund balance of the Permanent Improvement Fund decreased \$72,099.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

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

For the General Fund, the final budget basis revenue estimate was \$7,237,167. The original budgeted estimate was \$6,830,998. Foundation which makes up a large portion of intergovernmental revenue was \$143,782 higher than expected. Also contributing to the estimate increase in intergovernmental revenue was reimbursements for homestead exemption and tangible personal property loss reimbursement.

During fiscal year 2006, the School District closely monitored expenditures so that expenditures were \$162,406 less than appropriations.

Capital Assets and Debt Administration

Capital Assets

The School District does not currently report its capital assets and infrastructure.

Debt

At June 30, 2006, the School District had a \$170,000 school improvement bond outstanding and an \$115,913 energy conservation loan outstanding. The amount due in one year for this debt was \$38,775. The school improvement bond was originally issued for \$598,950 and will be paid off in fiscal year 2012. The energy conservation loan was originally \$199,096 and will be paid off in fiscal year 2013.

**Table 5
Outstanding Debt at June 30,**

	<u>2006</u>	<u>2005</u>
1989 School Improvement Bond	\$170,000	\$195,000
1999 Energy Conservation Loan	115,913	128,899
Total General Obligation Bonds	<u>\$285,913</u>	<u>\$323,899</u>

The School District's overall legal debt margin was \$7,538,815 the energy conservation debt margin was \$637,968 and the unvoted debt margin was \$83,765 at June 30, 2006.

For more information on the School District's debt, see Note 10 of the Basic Financial Statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Current Issues

The School District fluctuates back and forth of a break-even point historically over the past several years, but the 5-year forecast prepared in October 2006, projects a possible deficit in fiscal year 2011. The administration and the board of education continue to closely monitor State funding as there continues to be a reliance on the local taxpayer to maintain current levels of funding. This requires management to plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years.

Previously, the School District was participating in the Expedited Local Partnership Program (ELPP) of the Ohio School Facilities Commission to build a K-12 facility. Twice during fiscal year 2005, the School District asked the voters to approve a levy to provide their discrete portion of the School District's Master Plan adopted by the Ohio State Facilities Commission. However, the voters failed the levy both in November 2004 and February 2005. The state/district share ratio expired the end of March 2005. The School District has now been contacted by the Ohio School Facilities Commission and the School District's equity ranking is 243 and a Master Plan should be finalized by early 2007. The School District is in preparation for a potential call for funding in 2007.

In conclusion, the Hardin Houston Local School District continues to be committed to financial as well as educational excellence. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Rebecca Jelley, 5300 Houston Road, Houston, OH 45333 or e-mail at hh_becky@woco-k12.org.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2006**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,653,396</u>
Net Assets	
Restricted for:	
Capital Projects	\$707,667
Debt Service	307,861
School Bus Purchases	34,321
Other Purposes	75,255
Unrestricted	<u>1,528,292</u>
Total Net Assets	<u>\$2,653,396</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Program Cash Receipts</u>				<u>Net (Disbursements) Receipts and Changes in Net Assets</u>
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities					
Current:					
Instruction:					
Regular	\$3,175,067	\$645,244	\$39,157	\$10,624	(\$2,480,042)
Special	691,697		47,361		(644,336)
Vocational	74,089				(74,089)
Other	685,529				(685,529)
Support Services:					
Pupil	382,248	27,087	204,275		(150,886)
Instructional Staff	333,557		2,182		(331,375)
Board of Education	10,846				(10,846)
Administration	515,892				(515,892)
Fiscal	204,134				(204,134)
Business	928				(928)
Operation and Maintenance of Plant	724,886				(724,886)
Pupil Transportation	543,815	4,649		7,169	(531,997)
Central	3,550				(3,550)
Operation of Non-Instructional Services	227,199	164,605	69,228		6,634
Extracurricular Activities	154,823	47,439	4,314		(103,070)
Capital Outlay	28,078				(28,078)
Principal Retirement	37,986				(37,986)
Interest and Fiscal Charges	21,300				(21,300)
Total Governmental Activities	<u>\$7,815,624</u>	<u>\$889,024</u>	<u>\$366,517</u>	<u>\$17,793</u>	<u>(6,542,290)</u>
General Receipts					
Property Taxes Levied for:					
					1,841,414
					42,258
					413,563
					206,781
					4,209,650
					105,866
					23,866
					<u>6,843,398</u>
					301,108
					<u>2,352,288</u>
					<u>\$2,653,396</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,528,292	\$307,861	\$697,043	\$85,879	\$2,619,075
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	<u>34,321</u>				<u>34,321</u>
Total Assets	<u>1,562,613</u>	<u>307,861</u>	<u>697,043</u>	<u>85,879</u>	<u>2,653,396</u>
Fund Balances					
Reserved for Encumbrances	24,092			1,197	25,289
Reserved for Bus Purchases	34,321				34,321
Designated for Budget Stabilization	38,784				38,784
Unreserved, Undesignated, Reported in:					
General Fund	1,465,416				1,465,416
Special Revenue Funds				74,058	74,058
Debt Service Fund		307,861			307,861
Capital Projects Fund			697,043	10,624	<u>707,667</u>
Total Fund Balances	<u>\$1,562,613</u>	<u>\$307,861</u>	<u>\$697,043</u>	<u>\$85,879</u>	<u>\$2,653,396</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts					
Property Taxes	\$1,841,414	\$42,258			\$1,883,672
Income Taxes	413,563		\$206,781		620,344
Intergovernmental	4,212,534	4,285		\$369,014	4,585,833
Interest	104,529		1,337	71	105,937
Tuition and Fees	648,893				648,893
Extracurricular Activities				74,526	74,526
Charges for Services				164,605	164,605
Miscellaneous	18,851			9,056	27,907
<i>Total Receipts</i>	<u>7,239,784</u>	<u>46,543</u>	<u>208,118</u>	<u>617,272</u>	<u>8,111,717</u>
Disbursements					
Current:					
Instruction:					
Regular	3,043,180		92,115	39,772	3,175,067
Special	628,944		1,435	61,318	691,697
Vocational	74,089				74,089
Other	685,529				685,529
Support Services:					
Pupil	151,022			231,226	382,248
Instructional Staff	330,173			3,384	333,557
Board of Education	10,846				10,846
Administration	515,892				515,892
Fiscal	199,835	887	3,412		204,134
Business	928				928
Operation and Maintenance of Plant	569,709		155,177		724,886
Pupil Transportation	543,815				543,815
Central	3,550				3,550
Operation of Non-Instructional Services	0			227,199	227,199
Extracurricular Activities	111,660			43,163	154,823
Capital Outlay			28,078		28,078
Debt Service:					
Principal Retirement	12,986	25,000			37,986
Interest and Fiscal Charges	7,384	13,916			21,300
Total Disbursements	<u>6,889,542</u>	<u>39,803</u>	<u>280,217</u>	<u>606,062</u>	<u>7,815,624</u>
Excess of Receipts Over (Under) Disbursements	<u>350,242</u>	<u>6,740</u>	<u>(72,099)</u>	<u>11,210</u>	<u>296,093</u>
Other Financing Sources					
Refund of Prior Year Expenditures	893			2,822	3,715
Proceeds from Sale of Assets	1,300				1,300
Total Other Financing Sources	<u>2,193</u>			<u>2,822</u>	<u>5,015</u>
Net Change in Fund Balances	<u>352,435</u>	<u>6,740</u>	<u>(72,099)</u>	<u>14,032</u>	<u>301,108</u>
Fund Balances Beginning of Year	<u>1,210,178</u>	<u>301,121</u>	<u>769,142</u>	<u>71,847</u>	<u>2,352,288</u>
Fund Balances End of Year	<u>\$1,562,613</u>	<u>\$307,861</u>	<u>\$697,043</u>	<u>\$85,879</u>	<u>\$2,653,396</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS 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>	
Receipts:				
Property Taxes	\$1,766,400	\$1,849,069	\$1,841,414	(\$7,655)
Income Taxes	385,298	413,298	413,563	265
Intergovernmental	4,023,000	4,209,200	4,212,534	3,334
Interest	40,000	104,500	104,529	29
Tuition and Fees	604,300	641,300	648,893	7,593
Miscellaneous	12,000	19,800	18,851	(949)
Total Receipts	<u>6,830,998</u>	<u>7,237,167</u>	<u>7,239,784</u>	<u>2,617</u>
Disbursements:				
Current:				
Instruction:				
Regular	3,157,301	3,095,801	3,053,019	42,782
Special	644,996	673,996	638,145	35,851
Vocational	72,718	75,218	74,089	1,129
Other	645,272	715,272	685,529	29,743
Support Services:				
Pupils	162,369	162,369	151,589	10,780
Instructional Staff	337,658	342,658	330,590	12,068
Board of Education	9,770	10,970	10,846	124
Administration	499,161	519,161	516,394	2,767
Fiscal	201,927	204,927	199,867	5,060
Business	1,500	1,500	928	572
Operation and Maintenance of Plant	523,439	573,439	571,094	2,345
Pupil Transportation	451,829	544,429	543,994	435
Central	5,400	6,400	5,020	1,380
Extracurricular Activities	116,520	122,520	112,160	10,360
Capital Outlay	7,000	7,000		7,000
Debt Service:				
Principal Retirement	12,995	12,995	12,986	9
Interest and Fiscal Charges	7,385	7,385	7,384	1
Total Disbursements	<u>6,857,240</u>	<u>7,076,040</u>	<u>6,913,634</u>	<u>162,406</u>
Excess of Receipts Over (Under) Disbursements	<u>(26,242)</u>	<u>161,127</u>	<u>326,150</u>	<u>165,023</u>
Other Financing Sources:				
Refund of Prior Year Expenditure	2,000	4,821	893	(3,928)
Proceeds from Sale of Capital Assets			1,300	1,300
Total Other Financing Sources	<u>2,000</u>	<u>4,821</u>	<u>2,193</u>	<u>(2,628)</u>
Net Change in Fund Balances	<u>(24,242)</u>	<u>165,948</u>	<u>328,343</u>	<u>162,395</u>
Fund Balance at Beginning of Year	1,200,260	1,200,260	1,200,260	
Prior Year Encumbrances Appropriated	9,919	9,919	9,919	
Fund Balance at End of Year	<u>\$1,185,937</u>	<u>\$1,376,127</u>	<u>\$1,538,522</u>	<u>\$162,395</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,267	\$36,075
Net Assets		
Restricted for Students		36,075
Held in Trust for Scholarships	2,267	
Total Net Assets	\$2,267	\$36,075

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Private Purpose Trust</u>
Additions	
Miscellaneous	\$1,400
Deductions	
Scholarships	<u>875</u>
Change in Net Assets	525
Net Assets - Beginning of Year	<u>1,742</u>
Net Assets - End of Year	<u><u>\$2,267</u></u>

See accompanying notes to the basic financial statements.

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**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. REPORTING ENTITY

Hardin-Houston Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government and provides educational services as authorized by State and federal agencies. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The School District is located in Shelby County. The School District is staffed by 45 non-certificated employees, 57 certificated full-time teaching personnel and 3 administrative employees who provide services to 943 students and other community members. The School District currently operates two instructional/support buildings.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Hardin Houston Local School District, this includes general operations, food service, and student related activities of the School District.

B. Component Units

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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District does not have any component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 12 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Western Ohio Computer Organization
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Shelby County Schools Consortium
- Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As required by Ohio Administrative Code Section 117-2-03(B), the School District prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the School District chooses to prepare (for audit purposes) its financial statements and notes in accordance with the cash basis of accounting.

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial 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.

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. However, the School District does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

2. 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The funds of the School District are divided as either governmental or fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The following are the School District's major governmental funds:

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

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

Permanent Improvement Capital Projects Fund – The Permanent Improvement Capital Projects Fund accounts for a voted income tax levy to be used for the acquisition, construction, or improvement of capital facilities.

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

2. Fiduciary Funds

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 not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds, except the General Fund and the Bond Retirement Debt Service Fund. The legal level of control for these two funds are at the two digit function level within the fund. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. 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".

Investments of the School District's 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 on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2006, the School District did not have any investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 was \$104,529, which included \$43,848 assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of buses.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

L. Net 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. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance Reserves and Designations

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the School District's intentions and is subject to change. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and bus purchases. A fund designation has been established for budget stabilization.

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

O. Estimates

The modified cash basis of accounting used by the School District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

3. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year-end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year-end (budgetary basis) amounted to:

General Fund	\$24,092
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4. DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Inactive deposits are public deposits that the Board 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 bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

A. 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 its deposits or collateral securities that are in possession of an outside party. At fiscal year-end, the carrying amount of the School District's deposits was \$2,691,738. At fiscal year-end, \$2,430,984 of the School District's bank balance of \$2,750,622 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with 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

B. Investments

The School District did not have any investments at fiscal year-end.

Interest Rate Risk - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices.

Credit Risk - State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer.

5. PROPERTY TAXES

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

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

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. PROPERTY TAXES (Continued)

Public utility property tax receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2006 (other than public utility property) represent the collection of calendar year 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. Tangible personal property is currently assessed at 18.75 percent of true value.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. 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 Shelby 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.

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

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$67,115,330	78.90%	\$68,386,160	80.57%
Public Utility Personal	5,635,730	6.62%	5,683,080	6.70%
Tangible Personal Property	12,316,240	14.48%	10,809,651	12.73%
Total	<u>\$85,067,300</u>	<u>100.00%</u>	<u>\$84,878,891</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$28.00		\$28.00	

6. INCOME TAXES

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. Income tax revenue is credited to the General Fund (one-half of one percent) and the Permanent Improvement Capital Projects Fund (one-fourth of one percent). The General Fund tax was effective on January 1, 1991, and the Permanent Improvement Capital Projects Fund tax was effective on January 1, 1997. Both are continuing taxes. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. 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. During fiscal year 2006, the School District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (See Note 12). The School District pays this annual premium to Southwestern Educational Purchasing Council who in turns pays Marsh Company, the local agent for the Selective Insurance Company of South Carolina.

Insurance coverage provided includes the following:

Building and Contents-replacement cost(\$1,000 deductible)	\$17,238,949
Inland Marine Coverage (\$1,000 deductible)	Actual
Money and Securities	500,000
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured/Underinsured Motorists (\$1,000 deductible)	1,000,000
Comprehensive Liability:	
Per Occurrence	1,000,000
Aggregate	3,000,000
General Liability Umbrella Policy	5,000,000
Crime/Employee Dishonesty (\$1,000 deductible)	500,000
Education General Liability:	
Each Occurrence	1,000,000
Medical Expense-Any One Person/Each Accident	5,000
General Aggregate Limit	3,000,000
Employee Benefits Liability (\$1,000 deductible):	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Errors and Omissions Liability:	
Per Occurrence	1,000,000
Aggregate Limit	1,000,000

Settled claims have not exceeded this commercial coverage in the past three fiscal years. There has been no significant reduction in insurance coverage from last fiscal year.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). 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 Hunter Consulting provides administrative, cost control, and actuarial services to the GRP.

8. DEFINED BENEFIT PENSION PLANS

A. State 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 43215-3746, by calling (614) 222-5853, or visiting the SERS website at ohsers.org.

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. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to 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 \$84,473, \$97,320 and \$85,511 respectively; 43 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System of Ohio

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.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan.

Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member’s accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$378,229, \$372,290 and \$337,363 respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

C. Social Security System

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

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

9. POST-EMPLOYMENT 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-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal years ended June 30, 2006, and June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$29,095 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 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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, a decrease from 3.43 percent in 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 was established at \$35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$40,157.

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006, were \$158,776,151. At June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. DEBT

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Amount Outstanding 6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2006</u>	<u>Amount Due in One Year</u>
Governmental Activities					
School Improvement					
Bonds 1989 7.625%	\$195,000	\$0	(\$25,000)	\$170,000	\$25,000
Energy Conservation					
Loan 1999 5.95%	128,899		(12,986)	115,913	13,775
Total Governmental Activities					
Long-Term Liabilities	<u>\$323,899</u>	<u>\$0</u>	<u>(\$37,986)</u>	<u>\$285,913</u>	<u>\$38,775</u>

The School Improvement Bonds were issued October 1, 1988, for \$598,950. The unvoted general obligation bonds were issued for the purpose of school improvements. The bonds will mature December 1, 2011, and will be retired from the Bond Retirement Debt Service Fund. The Energy Conservation Loan was issued July 7, 1998, for \$199,096. The loan was issued for the purpose of making energy conservation improvements. The loan will mature March 1, 2013, and will be retired from the General Fund.

The School District's overall legal debt margin was \$7,538,815 the energy conservation debt margin was \$637,968 and the unvoted debt margin was \$83,765 at June 30, 2006. Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2006, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>School Improvement Bonds</u>		<u>Energy Conservation Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$25,000	\$12,010	\$13,775	\$6,594
2008	25,000	10,103	14,614	5,756
2009	30,000	7,961	15,502	4,867
2010	30,000	5,642	16,446	3,924
2011	30,000	3,385	17,447	2,923
2012-2013	30,000	1,128	38,129	2,598
Total	<u>\$170,000</u>	<u>\$40,229</u>	<u>\$115,913</u>	<u>\$26,662</u>

11. SET-ASIDE REQUIREMENTS

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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements during fiscal year 2006.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

11. SET-ASIDE REQUIREMENTS (Continued)

	Textbooks and Instructional Material	Capital Acquisitions
Set-aside Reserve Balance as of June 30, 2005	(\$119,399)	(\$317,618)
Current Year Set-aside Requirement	127,486	127,486
Qualifying Disbursements	(128,139)	0
Current Year Offsets	0	(206,781)
Set-aside Balances Carried Forward to Future Fiscal Years	(\$120,052)	(\$396,913)

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements and textbooks amounts below zero. These extra amounts of offsets may be used to reduce the set-aside requirements in future fiscal years.

12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Western Ohio Computer Organization - The Hardin-Houston Local School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative from the fiscal agent. The School District paid WOCO \$24,256 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 E. Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 124 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2006, the School District paid \$39,292 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2006, the School District paid \$2,514 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by an eleven member committee consisting of the Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by a majority vote of all member school districts. The Chief administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Shelby County Schools Consortium - The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental, and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider, currently Anthem Blue Cross/Blue Shield for health and dental insurance, and Medical Life Insurance Company for life insurance. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the service center. The degree of control exercised by any participating school district is limited to its representation on the committee. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 North Ludlow St., Dayton, Ohio 45402.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program
– The School District participates in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

13. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

This discussion and analysis of the Hardin Houston Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2005 are as follows:

- Net assets of governmental activities increased 8% or \$174,378 from prior year.
- The School District's general receipts are primarily property and income taxes and intergovernmental receipts. Property and income taxes represent 31 percent of receipts. Grants and entitlements not restricted to specific programs represent another 52 percent of receipts.
- Of the School District's \$7,348,457 in cash disbursements, only \$1,260,214 or 17 percent of the disbursements were offset by program receipts.
- Among major funds, the General Fund had \$6,641,324 in receipts and \$6,554,039 in disbursements. The General Fund's balance increased \$84,306 over 2004.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. The School District also reports long-term investments as assets, valued at cost.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)
(Continued)**

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as 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, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund, the Bond Retirement Fund and the Permanent Improvement Capital Projects Fund.

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

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2005 compared to fiscal year 2004 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$2,352,288</u>	<u>\$2,177,910</u>
Net Assets		
Restricted for:		
Capital Projects	\$769,142	\$673,651
Debt Service	301,121	300,431
School Bus Purchases	27,152	15,612
Other Purposes	71,847	77,956
Unrestricted	1,183,026	1,110,260
Total Net Assets	<u>\$2,352,288</u>	<u>\$2,177,910</u>

As mentioned previously, net assets of governmental activities increased \$174,378 during fiscal year 2005. Unrestricted net assets increased \$72,766 as a result of general operating receipts exceeding disbursements. Equity in Pooled Cash and Cash Equivalents increased due to increases in the general fund and the permanent improvement capital projects fund. The capital projects fund receives income taxes to provide for capital outlay. Of the income tax receipts that were received in fiscal year 2005, approximately ½ of that was disbursed for capital projects and the other ½ was saved for future year's projects.

Table 2 reflects the changes in net assets for fiscal year 2005. Since the School District did not prepare financial statements in this format for fiscal year 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)
(Continued)**

**(Table 2)
Changes in Net Assets**

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services	\$842,039
Operating Grants and Contributions	406,635
Capital Grants and Contributions	11,540
Total Program Receipts	1,260,214
General Receipts:	
Property Taxes	1,699,383
Income Taxes	566,614
Grants and Entitlements Not Restricted to Specific Programs	3,933,366
Interest and Miscellaneous	63,258
Total General Receipts	6,262,621
Total Receipts	7,522,835
 Disbursements:	
Instruction	4,422,700
Support Services:	
Pupils and Instructional Staff	700,500
Board of Education, Administration, Fiscal and Business	673,054
Operation and Maintenance of Plant	559,297
Pupil Transportation	513,214
Central	7,153
Operation of Non-Instructional Services	238,757
Extracurricular Activities	163,448
Capital Outlay	9,142
Debt Service	61,192
Total Disbursements	7,348,457
 Increase in Net Assets	174,378
 Net Assets, July 1, 2004	2,177,910
Net Assets, June 30, 2005	\$2,352,288

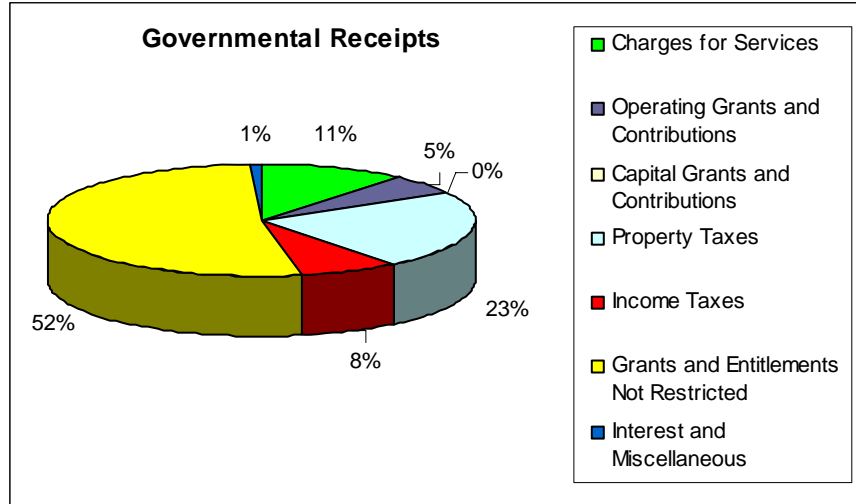
During fiscal year 2005, the School District had a modest increase in revenues. Expenses also increased during fiscal year 2005; however, fiscal year revenues were able to cover the expenses without decreasing net assets. Contributing to the 4% growth in overall expenses were an increase in salaries and increases in health care costs.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

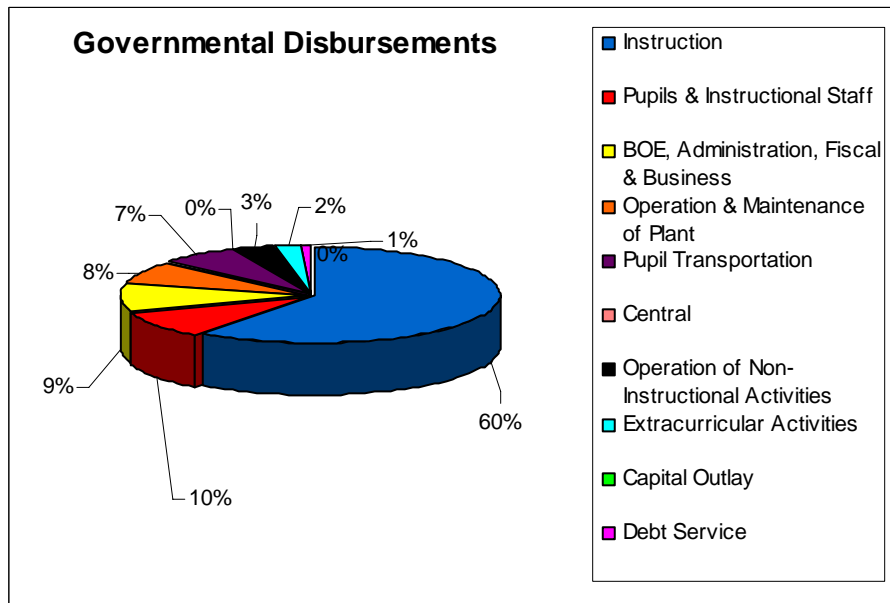
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)
(Continued)**

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property taxes make up 23% of receipts while income taxes add an additional 8% of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies.



Instruction comprises 60% of the School District's disbursements. Support services make up 33% of disbursements.



**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)
(Continued)**

If you look at the statement of activities on page 46, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the statement entitled program cash receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net receipt (disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
Instruction	\$4,422,700	(\$3,691,580)
Support Services:		
Pupils and Instructional Staff	700,500	(487,479)
Board of Education, Administration, Fiscal and Business	673,054	(671,679)
Operation and Maintenance of Plant	559,297	(549,433)
Pupil Transportation	513,214	(498,617)
Central	7,153	(5,483)
Operation of Non-Instructional Services	238,757	(7,159)
Extracurricular Activities	163,448	(106,479)
Capital Outlay	9,142	(9,142)
Debt Service	61,192	(61,192)
Total Disbursements	\$7,348,457	(\$6,088,243)

The dependence upon state foundation and property and income tax receipts is apparent as over 82 percent of governmental activities are supported through these general receipts.

The School District's Funds

The governmental funds had receipts of \$7,508,950 and disbursements of \$7,348,457. The fund balance of the General Fund increased \$84,306. Tax revenue in the general fund increased approximately \$33,000 and intergovernmental revenue, which is largely made up of state foundation, increased approximately \$218,000.

The fund balance of the Bond Retirement Fund increased \$690, as a result of receipts from property taxes exceeding debt payments. The fund balance of the permanent improvement fund increased \$95,733, approximately half of the receipts generated by the one-fourth of one percent income tax levied for capital outlay.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

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

For the General Fund, the final budget basis revenue estimate was \$6,634,761. The original budgeted estimate was \$6,396,073. The primary increase was the result of increases in the intergovernmental revenue estimate.

During fiscal year 2005, the School District closely monitored expenditures so that expenditures were \$209,378 less than appropriations.

Capital Assets and Debt Administration

Capital Assets

The School District does not currently report its capital assets and infrastructure.

Debt

At June 30, 2005, the School District had a \$195,000 school improvement bond outstanding and a \$128,899 energy conservation loan outstanding. The amount due in one year for this debt was \$37,986. The school improvement bond was originally issued for \$598,950 and will be paid off in fiscal year 2012. The energy conservation loan was originally \$199,096 and will be paid off in fiscal year 2013.

**Table 5
Outstanding Debt at June 30,**

	<u>2004</u>	<u>2005</u>
1989 School Improvement Bond	\$220,000	\$195,000
1999 Energy Conservation Loan	141,145	128,899
Total General Obligation Bonds	<u>\$361,145</u>	<u>\$323,899</u>

The School District's overall legal debt margin was \$7,656,057 the energy conservation debt margin was \$636,707 and the unvoted debt margin was \$85,067 at June 30, 2005.

For more information on the School District's debt, see Note 11 of the Basic Financial Statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)
(Continued)**

Current Issues

The School District fluctuates back and forth of a break-even point historically over the past several years, but the 5-year forecast prepared in October 2005, projects a possible deficit in fiscal year 2009. The administration and the board of education continue to closely monitor State funding as there continues to be a reliance on the local taxpayer to maintain current levels of funding. This requires management to plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years.

The School District was participating in the Expedited Local Partnership Program (ELPP) of the Ohio School Facilities Commission to build a K-12 facility. Twice during fiscal year 2005, the School District asked the voters to approve a levy to provide their discrete portion of the School District's Master Plan adopted by the Ohio State Facilities Commission. However, the voters failed the levy both in November 2004 and February 2005. The state/district share ratio expired at the end of March 2005. The School District will now need to reapply and then will be repositioned to their current equity standing.

In conclusion, the Hardin Houston Local School District continues to be committed to financial as well as educational excellence. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Rebecca Jelley, 5300 Houston Road, Houston, OH 45333 or e-mail at hh_becky@woco-k12.org.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,352,288</u>
Net Assets	
Restricted for:	
Capital Projects	\$769,142
Debt Service	301,121
School Bus Purchases	27,152
Other Purposes	71,847
Unrestricted	<u>1,183,026</u>
Total Net Assets	<u>\$2,352,288</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Assets	
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	Total Governmental Activities
Governmental Activities					
Current:					
Instruction:					
Regular	\$3,054,306	\$600,736	\$38,411		(\$2,415,159)
Special	674,033		91,973		(582,060)
Vocational	68,246				(68,246)
Other	626,115				(626,115)
Support Services:					
Pupil	355,495	29,378	180,207		(145,910)
Instructional Staff	345,005		3,436		(341,569)
Board of Education	8,854				(8,854)
Administration	453,350		375		(452,975)
Fiscal	209,393		1,000		(208,393)
Business	1,457				(1,457)
Operation and Maintenance of Plant	559,297		9,864		(549,433)
Pupil Transportation	513,214	1,300	1,757	\$11,540	(498,617)
Central	7,153		1,670		(5,483)
Operation of Non-Instructional Services	238,757	156,671	74,927		(7,159)
Extracurricular Activities	163,448	53,954	3,015		(106,479)
Capital Outlay	9,142				(9,142)
Principal Retirement	37,246				(37,246)
Interest and Fiscal Charges	23,946				(23,946)
Total Governmental Activities	<u>\$7,348,457</u>	<u>\$842,039</u>	<u>\$406,635</u>	<u>\$11,540</u>	<u>(6,088,243)</u>
General Receipts					
Property Taxes Levied for:					
					1,661,172
					38,211
					377,743
					188,871
					3,933,366
					48,926
					14,332
					<u>6,262,621</u>
					174,378
					<u>2,177,910</u>
					<u>\$2,352,288</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,183,026	\$301,121	\$769,142	\$71,847	\$2,325,136
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	27,152				27,152
Total Assets	<u>\$1,210,178</u>	<u>\$301,121</u>	<u>\$769,142</u>	<u>\$71,847</u>	<u>\$2,352,288</u>
Fund Balances					
Reserved for Encumbrances	\$9,918		\$19,530	\$24	\$29,472
Reserved for Bus Purchases	27,152				27,152
Designated for Budget Stabilization	38,784				38,784
Unreserved, Undesignated, Reported in:					
General Fund	1,134,324				1,134,324
Special Revenue Funds				71,823	71,823
Debt Service Fund		\$301,121			301,121
Capital Projects Fund			749,612		749,612
Total Fund Balances	<u>\$1,210,178</u>	<u>\$301,121</u>	<u>\$769,142</u>	<u>\$71,847</u>	<u>\$2,352,288</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED YEAR JUNE 30, 2005**

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$1,661,172	\$38,211			\$1,699,383
Income Taxes	377,743		\$188,871		566,614
Intergovernmental	3,940,799	4,107		\$391,418	4,336,324
Interest	48,926				48,926
Tuition and Fees	601,536				601,536
Extracurricular Activities				83,332	83,332
Charges for Services				156,117	156,117
Miscellaneous	11,148			5,570	16,718
Total Receipts	6,641,324	42,318	188,871	636,437	7,508,950
Disbursements					
Current:					
Instruction:					
Regular	2,962,709		52,064	39,533	3,054,306
Special	578,798			95,235	674,033
Vocational	68,246				68,246
Other	626,115				626,115
Support Services:					
Pupil	144,607			210,888	355,495
Instructional Staff	335,514			9,491	345,005
Board of Education	8,854				8,854
Administration	452,975			375	453,350
Fiscal	204,547	806	3,040	1,000	209,393
Business	1,457				1,457
Operation and Maintenance of Plant	515,510		36,484	7,303	559,297
Pupil Transportation	511,457			1,757	513,214
Central	5,483			1,670	7,153
Operation of Non-Instructional Services				238,757	238,757
Extracurricular Activities	109,805			53,643	163,448
Capital Outlay	7,592		1,550		9,142
Debt Service:					
Principal Retirement	12,246	25,000			37,246
Interest and Fiscal Charges	8,124	15,822			23,946
Total Disbursements	6,554,039	41,628	93,138	659,652	7,348,457
Excess of Receipts Over (Under) Disbursements	87,285	690	95,733	(23,215)	160,493
Other Financing Sources (Uses)					
Refund of Prior Year Expenditures	3,921			9,864	13,785
Proceeds from Sale of Assets	100				100
Transfers In				7,000	7,000
Transfers Out	(7,000)				(7,000)
Total Other Financing Sources (Uses)	(2,979)			16,864	13,885
Net Change in Fund Balances	84,306	690	95,733	(6,351)	174,378
Fund Balances Beginning of Year - Restated (Note 3)	1,125,872	300,431	673,409	78,198	2,177,910
Fund Balances End of Year	<u>\$1,210,178</u>	<u>\$301,121</u>	<u>\$769,142</u>	<u>\$71,847</u>	<u>\$2,352,288</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Receipts:				
Property Taxes	\$1,641,000	\$1,691,000	\$1,661,172	(\$29,828)
Income Taxes	361,981	361,981	377,743	15,762
Intergovernmental	3,716,653	3,904,841	3,940,799	35,958
Interest	25,000	25,000	48,926	23,926
Tuition and Fees	644,239	644,239	601,536	(42,703)
Miscellaneous	7,200	7,700	11,148	3,448
Total Receipts	<u>6,396,073</u>	<u>6,634,761</u>	<u>6,641,324</u>	<u>6,563</u>
Disbursements:				
Current:				
Instruction:				
Regular	3,009,638	2,989,638	2,964,811	24,827
Special	632,047	652,047	583,798	68,249
Vocational	73,624	73,624	68,246	5,378
Other	560,000	626,500	626,387	113
Support Services:				
Pupils	163,645	163,645	144,799	18,846
Instructional Staff	346,557	346,557	335,521	11,036
Board of Education	10,125	10,125	8,854	1,271
Administration	463,995	466,995	452,975	14,020
Fiscal	215,395	219,395	204,857	14,538
Business	1,500	1,500	1,457	43
Operation and Maintenance of Plant	519,290	531,291	516,755	14,536
Pupil Transportation	510,936	525,936	512,248	13,688
Central	5,862	6,862	5,483	1,379
Operation of Non-Instructional Services	2,500	2,500		2,500
Extracurricular Activities	109,750	117,475	109,805	7,670
Capital Outlay	23,300	18,875	7,592	11,283
Debt Service:				
Principal Retirement	12,246	12,246	12,246	
Interest and Fiscal Charges	8,125	8,125	8,124	1
Total Disbursements	<u>6,668,535</u>	<u>6,773,336</u>	<u>6,563,958</u>	<u>209,378</u>
Excess of Receipts Over (Under) Disbursements	<u>(272,462)</u>	<u>(138,575)</u>	<u>77,366</u>	<u>215,941</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditure	5,000	8,359	3,921	(4,438)
Transfers Out	(10,000)	(10,000)	(7,000)	3,000
Proceeds from Sale of Capital Assets			100	100
Total Other Financing Sources (Uses)	<u>(5,000)</u>	<u>(1,641)</u>	<u>(2,979)</u>	<u>(1,338)</u>
Net Change in Fund Balances	(277,462)	(140,216)	74,387	214,603
Fund Balance at Beginning of Year	1,101,770	1,101,770	1,101,770	
Prior Year Encumbrances Appropriated	24,103	24,103	24,103	
Fund Balance at End of Year	<u>\$848,411</u>	<u>\$985,657</u>	<u>\$1,200,260</u>	<u>\$214,603</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2005**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$1,742	\$26,581
Net Assets		
Restricted for Students		26,581
Held in Trust for Scholarships	1,742	
Total Net Assets	\$1,742	\$26,581

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Private Purpose Trust</u>
Additions	
Miscellaneous	\$1,000
Deductions	
Scholarships	<u>1,125</u>
Change in Net Assets	(125)
Net Assets - Beginning of Year - See Note 3	<u>1,867</u>
Net Assets - End of Year	<u><u>\$1,742</u></u>

See accompanying notes to the basic financial statements.

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**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. REPORTING ENTITY

Hardin-Houston Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government and provides educational services as authorized by State and federal agencies. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The School District is located in Shelby County. The School District is staffed by 45 non-certificated employees, 57 certificated full-time teaching personnel and 3 administrative employees who provide services to 921 students and other community members. The School District currently operates two instructional/support buildings.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Hardin Houston Local School District, this includes general operations, food service, and student related activities of the School District.

B. Component Units

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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District does not have any component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Western Ohio Computer Organization
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Shelby County Schools Consortium
- Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As required by Ohio Administrative Code Section 117-2-03(B), the School District prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the School District chooses to prepare (for audit purposes) its financial statements and notes in accordance with the cash basis of accounting.

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial 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.

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. However, the School District does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

2. 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The funds of the School District are divided as either governmental or fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The following are the School District's major governmental funds:

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

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

Permanent Improvement Capital Projects Fund – The permanent improvement capital projects fund accounts for a voted income tax levy to be used for the acquisition, construction, or improvement of capital facilities.

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

2. Fiduciary Funds

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 not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds, except the General Fund and the Bond Retirement Debt Service Fund. The legal level of control for these funds is at the two digit function level within the fund. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. 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".

Investments of the School District's 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 on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2005, the School District did not have any investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2005 was \$48,926, which included \$24,055 assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of buses.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net 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. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves and Designations

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the School District's intentions and is subject to change. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and bus purchases. A fund designation has been established for budget stabilization.

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

O. Estimates

The modified cash basis of accounting used by the School District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

For fiscal year 2005, the School District changed its method of accounting for financial reporting from a basis of accounting formerly prescribed for school districts by the Auditor of State to the other comprehensive basis of accounting described in Note 2. This basis of accounting is similar to the cash receipts and disbursements basis. The School District recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

The financial statements now include government-wide financial statements presented on a modified cash basis and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in one column. The government-wide financial statements combine the governmental activities into one column. The beginning net asset amount for governmental programs reflects the governmental fund balances for governmental funds at June 30, 2004.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND (Continued)

Also, for fiscal year 2005, the food service enterprise fund was reclassified to a special revenue fund and is considered a non-major fund. The recycling fund was formerly classified as an expendable trust fund and is now classified as a special revenue fund. The scholarship fund was formerly classified as an expendable trust fund and is now classified as a private purpose trust fund. These changes reduced proprietary fund net assets from \$6,448 to \$0 and increased fund balance of governmental funds \$8,115, from \$2,169,795 to \$2,177,910. Fiduciary net assets decreased \$1,666, from \$3,533 to \$1,867.

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year-end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year-end (budgetary basis) amounted to:

General Fund	\$9,918
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5. DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current 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 bills, bonds, notes, 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;

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligation or security 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 provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Protection of the School District's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution.

At fiscal year-end, the carrying amount of the School District's deposits was \$2,380,611 and the bank balance was \$2,472,189. \$313,608 of the School District's deposits was insured by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$2,158,581 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State 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 Federal Deposit Insurance Corporation.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

The School District did not have any investments at fiscal year-end.

Interest Rate Risk - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices.

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. 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 Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. PROPERTY TAXES (Continued)

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

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$65,563,380	79.27%	\$67,115,330	78.90%
Public Utility Personal	5,338,500	6.45%	5,635,730	6.62%
Tangible Personal Property	11,805,990	14.28%	12,316,240	14.48%
Total	\$82,707,870	100.00%	\$85,067,300	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$28.00		\$28.00	

7. INCOME TAXES

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. Income tax revenue is credited to the General Fund (one-half of one percent) and the Permanent Improvement Capital Projects Fund (one-fourth of one percent). The General Fund tax was effective on January 1, 1991, and the Permanent Improvement Capital Projects Fund tax was effective on January 1, 1997. Both are continuing taxes. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

8. 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. During fiscal year 2005, the School District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (See Note 14). The School District pays this annual premium to Southwestern Educational Purchasing Council who in turns pays Marsh Company, the local agent for the Selective Insurance Company of South Carolina.

Insurance coverage provided includes the following:

Building and Contents-replacement cost(\$1,000 deductible)	\$17,137,613
Inland Marine Coverage (\$1,000 deductible)	Actual
Money and Securities	500,000
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured/Underinsured Motorists (\$1,000 deductible)	1,000,000
Comprehensive Liability:	
Per Occurrence	1,000,000
Aggregate	3,000,000
General Liability Umbrella Policy	5,000,000
Crime/Employee Dishonesty (\$1,000 deductible)	500,000

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. RISK MANAGEMENT (Continued)

Education General Liability:	
Each Occurrence	1,000,000
Medical Expense-Any One Person/Each Accident	5,000
General Aggregate Limit	3,000,000
Employee Benefits Liability (\$1,000 deductible):	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Errors and Omissions Liability:	
Per Occurrence	1,000,000
Aggregate Limit	1,000,000

Settled claims have not exceeded this commercial coverage in the past three fiscal years. There has been no significant reduction in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). 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 Hunter Consulting provides administrative, cost control, and actuarial services to the GRP.

9. DEFINED BENEFIT PENSION PLANS

A. State 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 43215-3746 or by calling (614) 222-5853.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED BENEFIT PENSION (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$97,320, \$85,511 and \$90,958 respectively; 45 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System of Ohio

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.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan. Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary.

The 31st year of Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED BENEFIT PENSION (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED BENEFIT PENSION (Continued)

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$372,290, \$337,363, and \$222,190 respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employee Retirement System or State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

10. POST-EMPLOYMENT 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-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal years ended June 30, 2005, and June 20, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$28,638 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. POST-EMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease from 4.91 percent in fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$18,442.

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for next year. Net health care costs for the fiscal year ended June 30, 2005, were \$178,221,113. At June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected health care costs of \$158,776,151. On the basis of actuarial projects, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

11. DEBT

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	<u>Amount Outstanding 6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2005</u>	<u>Amount Due in One Year</u>
Governmental Activities					
School Improvement					
Bonds 1989 7.625%	\$220,000	\$0	(\$25,000)	\$195,000	\$25,000
Energy Conservation					
Loan 1999 5.95%	141,145	0	(12,246)	128,899	12,986
Total Governmental Activities					
Long-Term Liabilities	<u>\$361,145</u>	<u>\$0</u>	<u>(\$37,246)</u>	<u>\$323,899</u>	<u>\$37,986</u>

The School Improvement Bonds were issued October 1, 1988, for \$598,950. The unvoted general obligation bonds were issued for the purpose of school improvements. The bonds will mature December 1, 2011, and will be retired from the Bond Retirement Debt Service Fund.

The Energy Conservation Loan was issued July 7, 1998, for \$199,096. The loan was issued for the purpose of making energy conservation improvements. The loan will mature March 1, 2013, and will be retired from the General Fund.

The School District's overall legal debt margin was \$7,656,057 the energy conservation debt margin was \$636,707 and the un-voted debt margin was \$85,067 at June 30, 2005.

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

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. DEBT (Continued)

Fiscal Year Ending June 30,	School Improvement Bonds		Energy Conservation Loan	
	Principal	Interest	Principal	Interest
2006	\$25,000	\$13,916	\$12,986	\$7,384
2007	25,000	12,010	13,775	6,594
2008	25,000	10,103	14,614	5,756
2009	30,000	7,961	15,502	4,867
2010	30,000	5,642	16,446	3,924
2011-2013	60,000	4,513	55,576	5,521
Total	<u>\$195,000</u>	<u>\$54,145</u>	<u>\$128,899</u>	<u>\$34,046</u>

12. SET-ASIDE REQUIREMENTS

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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements during fiscal year 2005.

	Textbooks and Instructional Material	Capital Acquisitions
Set-aside Reserve Balance as of June 30, 2004	(\$79,491)	(\$253,027)
Current Year Set-aside Requirement	124,280	124,280
Qualifying Disbursements	(164,188)	
Current Year Offsets		(188,871)
Set-aside Balances Carried Forward to Future Fiscal Years	<u>(\$119,399)</u>	<u>(\$317,618)</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements and textbooks amounts below zero. These extra amounts of offsets may be used to reduce the set-aside requirements in future fiscal years.

13. INTERFUND TRANSFERS

The general fund transferred \$7,000 to the non-major governmental funds during fiscal year 2005. The transfer was necessary to support the food service program.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Western Ohio Computer Organization - The Russia Local School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative from the fiscal agent. The School District paid WOCO \$25,327 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 E. Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 123 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2005, the School District paid \$3,690 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2005, the School District paid \$1,603 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by an eleven member committee consisting of the Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by a majority vote of all member school districts. The Chief administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Shelby County Schools Consortium - The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental, and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider, currently Anthem Blue Cross/Blue Shield for health and dental insurance, and Medical Life Insurance Company for life insurance. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the service center. The degree of control exercised by any participating school district is limited to its representation on the committee. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 North Ludlow St., Dayton, Ohio 45402.

Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program - The School District participates in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

15. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



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*

Hardin Houston Local School District
Shelby County
5300 Houston Road
Houston, Ohio 45333

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 Hardin Houston Local School District, Shelby County, (the District), as of and for the years ended June 30, 2006, and 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 7, 2007, wherein, we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 7, 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 District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the District's management dated February 7, 2007, we reported a matter related to noncompliance we deemed immaterial.

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Hardin Houston Local School District
Shelby County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*

We intend this report solely for the information and use of the audit committee, management, and Board of Education. 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

February 7, 2007



Mary Taylor, CPA
Auditor of State

HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY 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 15, 2007