



Mary Taylor, CPA
Auditor of State

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Southwest Local School District
Hamilton County
230 South Elm Street
Harrison, Ohio 45030

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 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 & Analysis and the budgetary comparison for the General Fund are not a required part of the basic financial statements but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 29, 2007

**SOUTHWEST LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

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

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- In total, net assets decreased \$2,850,937.
- General revenues accounted for \$28,619,199 in revenue or 87% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,264,678 or 13% of total revenues of \$32,883,877.
- The District had \$35,734,814 in expenses related to governmental activities; only \$4,264,678 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$28,619,199 were also used to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Government-wide Financial Statements answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities, and interest and fiscal charges.

Fund Financial Statements

The analysis of the District's major funds is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

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

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

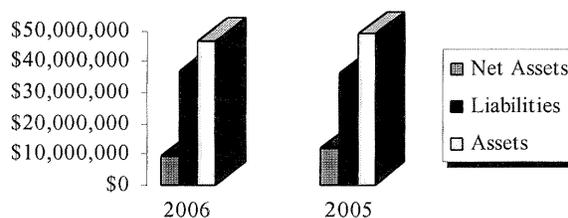
The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net assets for 2006 compared to 2005:

Table 1
Net Assets

	Governmental Activities	
	2006	2005 Restated
Assets		
Current Assets	\$20,101,638	\$21,492,541
Capital Assets	26,509,484	27,504,949
Total Assets	46,611,122	48,997,490
Liabilities		
Long-Term Liabilities	24,546,319	25,007,150
Other Liabilities	12,487,772	11,562,372
Total Liabilities	37,034,091	36,569,522
Net Assets		
Invested in Capital		
Assets Net of Debt	5,823,968	6,033,308
Restricted	4,336,434	4,098,159
Unrestricted	(583,371)	2,296,501
Total Net Assets	\$9,577,031	\$12,427,968



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$9,577,031.

At year-end, capital assets represented 57% of total assets. Capital assets include land, land improvements, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2006, was \$5,823,968. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$4,336,434, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current assets decreased mainly due to a decrease in Equity in Pooled Cash and Investments which was a result of the District holding a smaller balance of investments compared to the prior year. Capital Assets decreased mainly due to current year depreciation expense exceeded current year capital assets additions. Other liabilities increased due to the increase in payables the District owes at fiscal year end as compared to prior year and an increase in unearned revenue which was largely due to an increase in taxes receivable.

Table 2 shows the change in net assets for fiscal year 2006 and 2005.

Table 2
Changes in Net Assets

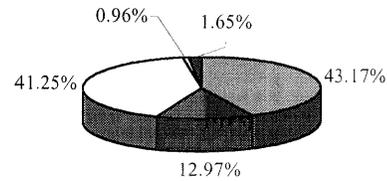
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005 Restated</u>
Revenues		
Program Revenues:		
Charges for Services	\$1,340,903	\$1,648,211
Operating Grants	2,899,612	2,745,406
Capital Grants	24,163	62,664
General Revenue:		
Property Taxes	13,564,706	14,633,947
Grants and Entitlements	14,193,738	13,866,910
Other	860,755	482,119
Total Revenues	<u>32,883,877</u>	<u>33,439,257</u>
Program Expenses:		
Instruction	19,714,310	18,935,672
Support Services:		
Pupil and Instructional Staff	2,982,134	2,475,791
General and School Administrative, Fiscal and Business	3,503,246	3,497,397
Operations and Maintenance	3,404,129	3,243,491
Pupil Transportation	1,837,761	1,746,336
Central	33,195	52,124
Operation of Non-Instructional Services	1,958,502	1,860,454
Extracurricular Activities	785,607	746,704
Interest and Fiscal Charges	1,515,930	1,464,516
Total Expenses	<u>35,734,814</u>	<u>34,022,485</u>
Change in Net Assets	(2,850,937)	(583,228)
Beginning Net Assets	<u>12,427,968</u>	<u>13,011,196</u>
Ending Net Assets	<u>\$9,577,031</u>	<u>\$12,427,968</u>

The District revenues are mainly from two sources. Property taxes levied for general, debt service and capital projects purposes and grants and entitlements comprised 84.4% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts do not collect additional property taxes on the increase in property value due to the increase in appraisal value and must regularly return to the voters to maintain a constant level of service. Property taxes made up 41.3% of revenue for governmental activities for the District in fiscal year 2006.

Revenue Sources	2006	Percent of Total
General Grants	\$14,193,738	43.17%
Program Revenues	4,264,678	12.97%
General Tax Revenues	13,564,706	41.25%
Investment Earnings	316,710	0.96%
Other Revenues	544,045	1.65%
	<u>\$32,883,877</u>	<u>100.00%</u>



Instruction comprises 55.2% of total governmental program expenses. Support services expenses were 32.9% of total governmental program expenses. All other expenses and interest expense was 11.9%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

General Revenues decreased largely due to the decrease in the amount of taxes revenue received. This was due to the large fluctuation in the amount of taxes available for advance provided by the county auditor. Total expenses increased a modest 5% compared to 2005 due to general inflationary costs.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005 Restated	2006	2005 Restated
Instruction	\$19,714,310	\$18,935,672	(\$17,842,885)	(\$17,336,987)
Support Services:				
Pupil and Instructional Staff	2,982,134	2,475,791	(2,559,319)	(1,942,098)
General and School Administrative, Fiscal and Business	3,503,246	3,497,397	(3,486,176)	(3,475,134)
Operations and Maintenance	3,404,129	3,243,491	(3,391,779)	(3,219,129)
Pupil Transportation	1,837,761	1,746,336	(1,785,115)	(1,696,552)
Central	33,195	52,124	(8,833)	(28,790)
Operation of Non-Instructional Services	1,958,502	1,860,454	(303,984)	(57,062)
Extracurricular Activities	785,607	746,704	(576,115)	(345,936)
Interest and Fiscal Charges	1,515,930	1,464,516	(1,515,930)	(1,464,516)
Total Expenses	<u>\$35,734,814</u>	<u>\$34,022,485</u>	<u>(\$31,470,136)</u>	<u>(\$29,566,204)</u>

The District's Major Funds

The District has two major governmental funds: the General Fund and the Debt Service Fund. Assets of the general fund comprised \$14,115,702 (70%) and the debt service fund comprised \$3,843,828 (19%) of the total \$20,101,638 governmental funds assets.

General Fund: Fund balance at June 30, 2006 was \$2,553,821, a decrease in fund balance of \$2,805,355 from 2005. In the prior year, the District had received \$2,000,000 in proceeds from a note that was issued, which was the primary reason the District had a decrease in fund balance from 2005.

Debt Service Fund: Fund balance at June 30, 2006 was \$2,630,602 including \$1,970,602 of unreserved balance, an increase in fund balance of \$167,750 from 2005. The primary reason for the increase in fund balance was an increase in taxes receivable mainly due to an increase in taxes available for advance in 2006 compared to 2005.

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the District amended its general fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$27,001,731, below original budget estimates of \$27,001,989. Of this \$258 difference, most was due to overestimating original estimate for taxes revenue.

The District's ending unobligated cash balance was \$437,283 below the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At fiscal year end, the District had \$26,509,484 invested in land, land improvements, buildings and improvements and equipment. Table 4 shows fiscal 2006 balances compared to fiscal 2005:

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

	Governmental Activities	
	2006	2005 Restated
Land	\$2,875,501	\$2,875,501
Construction in Progress	0	124,292
Land Improvements	1,467,831	1,598,742
Buildings and Improvements	20,470,434	20,971,470
Equipment	1,695,718	1,934,944
Total Net Capital Assets	<u>\$26,509,484</u>	<u>\$27,504,949</u>

The overall decrease in capital assets is due to current year depreciation expense exceeding current year capital asset additions.

See Note 6 to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2006, the District had \$20,685,516 in bonds and notes outstanding, \$793,957 due within one year. Table 5 summarizes bonds and notes outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities	
	2006	2005
<u>General Obligation Bonds and Notes:</u>		
School Facilities Bond	\$65,516	\$1,771,641
School Improvement Bonds I	8,590,000	8,815,000
School Improvement Bonds II	8,670,000	8,885,000
School Facilities Bond - Refunding Bonds	1,660,000	0
Notes Payable	1,700,000	2,000,000
Total	<u>\$20,685,516</u>	<u>\$21,471,641</u>

See Note 7 to the basic financial statements for further details on the District’s long-term obligations.

For the Future

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone and telecommunications companies, and railroads. The tax on general business and railroad property began being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunication property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are being reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

All of the District’s financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District’s finances, the District’s management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gregory P. Bybee, Treasurer at Southwest Local School District, 230 South Elm Street, Harrison, Ohio 45030, or e-mail at greg.bybee@southwestschools.org.

Southwest Local School District
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$6,282,750
Restricted Cash and Investments	177,561
Receivables:	
Taxes	13,524,588
Accounts	9,243
Intergovernmental	96,391
Inventory	11,105
Nondepreciable Capital Assets	2,875,501
Depreciable Capital Assets, Net	<u>23,633,983</u>
 Total Assets	 <u>46,611,122</u>
Liabilities:	
Accounts Payable	447,049
Accrued Wages and Benefits	3,268,426
Accrued Interest Payable	118,608
Unearned Revenue	8,653,689
Long-Term Liabilities:	
Due Within One Year	1,150,646
Due In More Than One Year	<u>23,395,673</u>
 Total Liabilities	 <u>37,034,091</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	5,823,968
Restricted for:	
Special Revenue	681,093
Debt Service	2,603,523
Capital Projects	874,257
Set-Aside	177,561
Unrestricted	<u>(583,371)</u>
 Total Net Assets	 <u><u>\$9,577,031</u></u>

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$15,497,094	\$53,332	\$151,570	\$0	(\$15,292,192)
Special	3,300,201	0	1,508,037	0	(1,792,164)
Vocational	377,884	0	107,508	0	(270,376)
Other	539,131	14,260	36,718	0	(488,153)
Support Services:					
Pupil	1,478,014	0	206,606	0	(1,271,408)
Instructional Staff	1,504,120	0	216,209	0	(1,287,911)
General Administration	56,424	0	0	0	(56,424)
School Administration	2,795,674	0	17,070	0	(2,778,604)
Fiscal	651,148	0	0	0	(651,148)
Operations and Maintenance	3,404,129	0	12,350	0	(3,391,779)
Pupil Transportation	1,837,761	0	28,483	24,163	(1,785,115)
Central	33,195	0	24,362	0	(8,833)
Operation of Non-Instructional Services	1,958,502	1,063,819	590,699	0	(303,984)
Extracurricular Activities	785,607	209,492	0	0	(576,115)
Interest and Fiscal Charges	1,515,930	0	0	0	(1,515,930)
Total Governmental Activities	\$35,734,814	\$1,340,903	\$2,899,612	\$24,163	(31,470,136)

General Revenues:

Property Taxes Levied for:

General Purposes	11,331,687
Debt Service Purposes	1,945,779
Capital Projects Purposes	287,240
Grants and Entitlements not Restricted to Specific Programs	14,193,738
Unrestricted Contributions	924
Investment Earnings	316,710
Other Revenues	543,121

Total General Revenues 28,619,199

Change in Net Assets (2,850,937)

Net Assets Beginning of Year, Restated 12,427,968

Net Assets End of Year \$9,577,031

See accompanying notes to the basic financial statements.

Southwest Local School District
Balance Sheet
Governmental Funds
June 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$2,569,965	\$1,970,602	\$1,742,183	\$6,282,750
Restricted Cash and Investments	177,561	0	0	177,561
Receivables:				
Taxes	11,365,140	1,873,226	286,222	13,524,588
Accounts	3,036	0	6,207	9,243
Intergovernmental	0	0	96,391	96,391
Inventory	0	0	11,105	11,105
Total Assets	14,115,702	3,843,828	2,142,108	20,101,638
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	317,642	0	129,407	447,049
Accrued Wages and Benefits	3,160,204	0	108,222	3,268,426
Compensated Absences	188,895	0	0	188,895
Deferred Revenue	7,895,140	1,213,226	206,919	9,315,285
Total Liabilities	11,561,881	1,213,226	444,548	13,219,655
Fund Balances:				
Reserved for Encumbrances	331,765	0	75,074	406,839
Reserved for Inventory	0	0	11,105	11,105
Reserved for Property Tax Advances	3,470,000	660,000	89,000	4,219,000
Reserved for Set-Aside	177,561	0	0	177,561
Unreserved, Undesignated, Reported in:				
General Fund	(1,425,505)	0	0	(1,425,505)
Special Revenue Funds	0	0	782,121	782,121
Debt Service Funds	0	1,970,602	0	1,970,602
Capital Projects Funds	0	0	740,260	740,260
Total Fund Balances	2,553,821	2,630,602	1,697,560	6,881,983
Total Liabilities and Fund Balances	\$14,115,702	\$3,843,828	\$2,142,108	\$20,101,638

See accompanying notes to the basic financial statements.

Southwest Local School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2006

Total Governmental Fund Balance		\$6,881,983
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		26,509,484
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	651,899	
Intergovernmental	<u>9,697</u>	
		661,596
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(118,608)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(3,671,908)</u>	
		(3,671,908)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(20,685,516)</u>
Net Assets of Governmental Activities		<u><u>\$9,577,031</u></u>

See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$11,273,601	\$1,942,207	\$286,852	\$13,502,660
Tuition and Fees	67,592	0	0	67,592
Investment Earnings	285,554	0	31,156	316,710
Intergovernmental	14,900,269	204,666	2,023,485	17,128,420
Extracurricular Activities	0	0	209,492	209,492
Charges for Services	0	0	1,036,981	1,036,981
Other Revenues	81,771	0	488,554	570,325
Total Revenues	26,608,787	2,146,873	4,076,520	32,832,180
Expenditures:				
Current:				
Instruction:				
Regular	14,522,503	0	184,667	14,707,170
Special	2,739,860	0	501,655	3,241,515
Vocational	288,787	0	0	288,787
Other	464,549	0	74,582	539,131
Support Services:				
Pupil	1,136,416	0	311,521	1,447,937
Instructional Staff	1,241,107	0	171,979	1,413,086
General Administration	56,424	0	0	56,424
School Administration	2,588,151	3,856	150,293	2,742,300
Fiscal	614,248	28,466	4,225	646,939
Operations and Maintenance	3,308,982	0	1,125	3,310,107
Pupil Transportation	1,660,893	0	0	1,660,893
Central	25,156	0	8,039	33,195
Operation of Non-Instructional Services	0	0	1,873,288	1,873,288
Extracurricular Activities	559,531	0	207,066	766,597
Capital Outlay	0	0	334,608	334,608
Debt Service:				
Principal Retirement	150,000	486,125	150,000	786,125
Interest and Fiscal Charges	57,545	1,460,676	0	1,518,221
Total Expenditures	29,414,152	1,979,123	3,973,048	35,366,323
Excess of Revenues Over (Under) Expenditures	(2,805,365)	167,750	103,472	(2,534,143)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	10	0	550	560
Issuance of Refunding Bonds	0	1,660,000	0	1,660,000
Payments to Refunding Bond Escrow Agent	0	(1,660,000)	0	(1,660,000)
Total Other Financing Sources (Uses)	10	0	550	560
Net Change in Fund Balance	(2,805,355)	167,750	104,022	(2,533,583)
Fund Balance Beginning of Year	5,359,176	2,462,852	1,593,538	9,415,566
Fund Balance End of Year	\$2,553,821	\$2,630,602	\$1,697,560	\$6,881,983

See accompanying notes to the basic financial statements.

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

Net Change in Fund Balance - Total Governmental Funds (\$2,533,583)

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

Governmental funds report capital asset additions as expenditures.

However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	246,215	
Depreciation Expense	<u>(1,241,680)</u>	(995,465)

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

Delinquent Property Taxes	62,046	
Intergovernmental	<u>(10,909)</u>	51,137

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 786,125

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. 2,291

Some expenses reported in the statement of activities do not require the
 use of current financial resources and therefore are not reported as
 expenditures in governmental funds.

Compensated Absences	<u>(161,442)</u>	(161,442)
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Change in Net Assets of Governmental Activities		<u><u>(\$2,850,937)</u></u>
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See accompanying notes to the basic financial statements.

Southwest Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$8,965	\$79,423
Receivables:		
Accounts	0	20
Total Assets	<u>8,965</u>	<u>\$79,443</u>
Liabilities:		
Accounts Payable	0	4,146
Other Liabilities	0	75,297
Total Liabilities	<u>0</u>	<u>\$79,443</u>
Net Assets:		
Held in Trust	<u>8,965</u>	
Total Net Assets	<u>\$8,965</u>	

See accompanying notes to the basic financial statements.

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

	Private Purpose Trust
Additions:	
Donations	<u>\$8,600</u>
Total Additions	<u>8,600</u>
Deductions:	
Scholarships	<u>8,415</u>
Total Deductions	<u>8,415</u>
Change in Net Assets	185
Net Assets Beginning of Year	<u>8,780</u>
Net Assets End of Year	<u><u>\$8,965</u></u>

See accompanying notes to the basic financial statements.

SOUTHWEST LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. DESCRIPTION OF THE DISTRICT

The Southwest Local School District (the "District") was formed in 1954 with the consolidation of Harrison, Crosby and Whitewater School Districts. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 242 non-certificated personnel and 157 certificated full time teaching and administrative personnel to provide services to students and other community members.

The District enrollment for October 2005 was 3,861. It currently operates six elementary schools, one junior school (grades 7-8), and one comprehensive high school (grades 9-12).

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

This District is associated with two organizations which are defined as jointly governed organizations. These organizations are the Hamilton/Clermont Cooperative Association and Great Oaks Institute of Technology. These organizations are presented in Note 12.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

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

Fund Financial Statements

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

Fiduciary Funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

Fiduciary Funds

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

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

EQUITY IN POOLED CASH AND INVESTMENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2006 amounted to \$285,554 in the general fund and \$31,156 in other governmental funds.

For presentation on the financial statements, all investments of the cash management pool are considered to be cash equivalents.

INVENTORY

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventory consists of food held for resale and consumable supplies.

CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District has a capitalization threshold of \$2,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated, except land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	10-45 years
Furniture and Equipment	5-20 years

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the expenditures for compensated absences are recognized when paid, or in the case of termination benefits, when due for payment. These amounts due at year end are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-certificated</u>
How earned	Not Eligible	20 days	3-26 days for each service year depending on length of service
Maximum Accumulation	Not Applicable	20 days	26 days
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	None	None
<u>Sick Leave</u>	<u>Certified</u>	<u>Administers</u>	<u>Non-certificated</u>
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	270 days	280 days	275 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

NET ASSETS

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

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

INTERFUND ACTIVITY

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

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Assets. The District did not have any "interfund receivables/payables" as of June 30, 2006.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

FUND EQUITY

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, inventory, budgetary set-asides, and property tax advances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

ESTIMATES

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

RESTRICTED ASSETS

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

3. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, by a line of credit, or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities or a line of credit. As of June 30, 2006, \$800,100 of the District's bank balance of \$1,206,108 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

As of June 30, 2006, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
Money Market Funds	\$1,229,325	0.00
STAR Ohio	289,339	0.00
Federal Home Loan Bank	2,742,079	1.20
Federal Home Loan Mortgage	1,000,167	2.03
Federal National Mortgage Association	<u>500,000</u>	2.71
Total Fair Value	<u>\$5,760,910</u>	
Portfolio Weighted Average Maturity		1.16

Interest rate risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The District’s investments in Federal Home Loan Bank, Federal Home Loan Mortgage, Federal National Mortgage Association and in the Money Market funds were rated AAA by Standard and Poor’s and Fitch ratings and Aaa by Moody’s Investment Service. Investments in STAROhio were rated AAAm by Standard & Poors.

Concentration of credit risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested 21% of the District’s investments in Money Market Funds, 5% in STAR Ohio, 48% in Federal Home Loan Bank, 9% in Federal National Mortgage Association, and 17% in Federal Home Loan Mortgage.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

4. PROPERTY TAXES

Real property taxes collected in 2006 were levied in April on the assessed values as of January 1, 2005, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). Each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2006, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The Hamilton County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2006. Delinquent property taxes collected within 60 days of the fiscal year end are included as a receivable and tax revenue on the fund financial statements. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006, was \$3,470,000 for General Fund, \$660,000 for Debt Service and \$89,000 for Other Governmental Funds, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2006 operations.

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

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$458,712,050
Public Utility Personal	19,620,700
Tangible Personal Property	<u>49,144,246</u>
Total	<u>\$527,476,996</u>

5. RECEIVABLES

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

6. CAPITAL ASSETS

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

	Restated Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,875,501	\$0	\$0	\$2,875,501
Construction in Progress	124,292	77,212	201,504	0
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,729,562	0	0	2,729,562
Buildings and Improvements	31,613,431	233,860	0	31,847,291
Equipment	7,665,911	136,647	5,220	7,797,338
Totals at Historical Cost	<u>45,008,697</u>	<u>447,719</u>	<u>206,724</u>	<u>45,249,692</u>
Less Accumulated Depreciation:				
Land Improvements	1,130,820	130,911	0	1,261,731
Buildings and Improvements	10,641,961	734,896	0	11,376,857
Equipment	5,730,967	375,873	5,220	6,101,620
Total Accumulated Depreciation	<u>17,503,748</u>	<u>1,241,680</u>	<u>5,220</u>	<u>18,740,208</u>
Governmental Activities Capital Assets, Net	<u>\$27,504,949</u>	<u>(\$793,961)</u>	<u>\$201,504</u>	<u>\$26,509,484</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$907,014
Special	35,738
Vocational	270
Support Services:	
Instructional Staff	23,400
School Administration	54,885
Operations and Maintenance	49,381
Pupil Transportation	105,057
Operation of Non-Instructional Services	48,619
Extracurricular Activities	17,316
Total Depreciation Expense	<u>\$1,241,680</u>

7. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities						
<u>General Obligation Bonds and Notes:</u>						
1994 5.07% School Facilities*	12/01/10	\$1,771,641	\$0	\$1,706,125	\$65,516	\$33,957
1999 4.96% School Improvement I	12/01/27	8,815,000	0	225,000	8,590,000	235,000
1999 5.05% School Improvement II	12/01/27	8,885,000	0	215,000	8,670,000	225,000
2006 4.50% School Facilities - Refunding Bonds	12/01/10	0	1,660,000	0	1,660,000	0
2005 3.67% Notes Payable	03/15/10	2,000,000	0	300,000	1,700,000	300,000
Total General Obligation Bonds and Notes		<u>21,471,641</u>	<u>1,660,000</u>	<u>2,446,125</u>	<u>20,685,516</u>	<u>793,957</u>
Compensated Absences		<u>3,535,509</u>	<u>509,337</u>	<u>184,043</u>	<u>3,860,803</u>	<u>356,689</u>
Total Governmental Activities Long-Term Liabilities		<u>\$25,007,150</u>	<u>\$2,169,337</u>	<u>\$2,630,168</u>	<u>\$24,546,319</u>	<u>\$1,150,646</u>

* \$1,660,000 of the \$1,706,125 represents advance refunding.

General obligation bonds will be paid from the debt service fund. The notes will be paid from the general and permanent improvement fund. Compensated absences will be paid from the fund from which the person is paid.

On March 15, 2005, the District issued \$2,000,000 in General Obligation Notes with an interest rate of 3.67%. The net proceeds were used to purchase 63.51 acres of land.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

Fiscal Year Ending June 30	<u>General Obligation Bonds and Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$793,957	\$1,485,684	\$2,279,641
2008	811,559	1,452,570	2,264,129
2009	1,330,000	920,495	2,250,495
2010	1,870,000	863,258	2,733,258
2011	1,120,000	781,773	1,901,773
2012-2016	3,150,000	3,337,686	6,487,686
2017-2021	4,025,000	2,423,363	6,448,363
2022-2026	5,135,000	1,289,850	6,424,850
2027-2028	2,450,000	125,775	2,575,775
Total	<u>\$20,685,516</u>	<u>\$12,680,454</u>	<u>\$33,365,970</u>

8. ADVANCE REFUNDING

During fiscal year 2006, the District issued \$1,660,000 in General Obligation bonds with an average interest rate of 4.50% which was used to partially advance refund \$1,660,000 of outstanding bonds with an average interest rate of 5.07%. The proceeds of \$1,660,000 were used for School Facilities Improvements. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the bonds. As a result, \$1,660,000 of the bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets.

The District advance refunded the 1994 Series bonds to reduce its total debt service payments by \$80,955 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$35,803.

9. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The 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 (800) 878-5823 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$541,848, \$517,596, and \$520,464, respectively; 46.7% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004.

STATE TEACHERS RETIREMENT SYSTEM

The District participates in 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 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090 or by visiting the STRS website 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 DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004 were \$2,166,948, \$1,992,504, and \$1,876,296, respectively; 82.7% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004.

10. POST EMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District, this amount equaled \$154,782 during the 2006 fiscal year.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. 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. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid approximately \$132,366 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Net health care cost for the fiscal year ended June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

11. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2006.

LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

12. JOINTLY GOVERNED ORGANIZATIONS

Hamilton/Clermont Cooperative Association (HCAA) - The Hamilton/Clermont Cooperative Association is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the twenty-four participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Hamilton Clermont Cooperative Association, Don Rabe, who serves as Treasurer, at 11083 Hamilton Avenue, Cincinnati, Ohio 45231.

Great Oaks Institute of Technology and Career Development - The Great Oaks Institute of Technology and Career Development is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of thirty-five members representing thirty-six affiliated school districts, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Great Oaks Institute of Technology and Career Development, John Wahle, who serves as Chief Financial Officer, at 3254 East Kemper Road, Cincinnati, Ohio 45241.

13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the District contracted with Indiana Insurance for fleet and liability insurance and Inland Marine coverage for property insurance.

Coverages provided by Indiana Insurance are as follows:

Building and Contents-replacement cost (\$10,000 deductible)	\$81,055,245
Inland Marine Coverage (\$1,000 deductible)	81,055,245
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$1,000 deductible)	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

14. FUND BALANCE RESERVES FOR SET-ASIDES

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

The District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2005	(\$599,037)	\$ 0	\$177,561
Current Year Set-aside Requirement	548,239	548,239	0
Qualified Disbursements	(646,909)	(798,983)	0
Current Year Offsets	<u>0</u>	<u>0</u>	<u>0</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>(\$697,707)</u>	<u>\$ 0</u>	<u>\$177,561</u>
Restricted Cash as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$177,561</u>
Carried Forward to FY 2007	<u>(\$697,707)</u>	<u>\$ 0</u>	<u>\$ 0</u>

Offsets/expenditures for textbook activity during the year exceeded the required set-aside and the reserve balance. The surplus of \$697,707 above may be carried forward to reduce the amount of the required set-aside in succeeding fiscal years.

Expenditures for capital activity during the year totaled \$798,983 above, which exceeded the required set-aside and the reserve balance. Although the District had qualifying disbursements during the year that reduced the Capital Acquisition set-aside amounts to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

15. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required to restate capital assets at June 30, 2005 due to corrections completed on the capital asset detail in the prior year. This restatement had the following effect on net assets at June 30, 2005:

	<u>Governmental Activities</u>
Net assets as previously reported	\$12,421,753
Restatement for capital assets	<u>6,215</u>
Net assets, restated at July 1, 2005	<u>\$12,427,968</u>

16. CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries"; GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on fund balance/net assets as a result of the implementation of these new standards.

17. SUBSEQUENT EVENT

On August 29, 2007 Southwest Local School District issued \$9,310,000 School Improvement Refunding Bonds. These bonds were issued to retire former issuance of bonds for building construction and renovation.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Southwest Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2006

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$11,340,294	\$11,103,601	\$11,103,601	\$0
Tuition and Fees	69,033	67,592	67,592	0
Investment Earnings	291,641	285,554	285,554	0
Intergovernmental	15,217,895	15,463,743	14,900,269	(563,474)
Other Revenues	83,126	81,241	81,391	150
Total Revenues	27,001,989	27,001,731	26,438,407	(563,324)
Expenditures:				
Current:				
Instruction:				
Regular	14,278,632	14,446,641	14,332,722	113,919
Special	2,519,265	2,528,808	2,528,808	0
Vocational	301,934	303,078	303,078	0
Other	462,768	464,521	464,521	0
Support Services:				
Pupil	1,128,218	1,132,492	1,132,492	0
Instructional Staff	1,257,550	1,262,314	1,262,314	0
General Administration	61,544	61,777	61,777	0
School Administration	2,633,904	2,655,969	2,643,882	12,087
Fiscal	616,515	618,850	618,850	0
Operations and Maintenance	3,406,368	3,419,272	3,419,272	0
Pupil Transportation	1,752,941	1,759,581	1,759,581	0
Central	25,265	25,361	25,361	0
Operation of Non-Instructional Services	2,257	2,301	2,266	35
Extracurricular Activities	558,077	560,191	560,191	0
Debt Service:				
Principal Retirement	150,000	150,000	150,000	0
Interest and Fiscal Charges	56,762	57,545	57,545	0
Total Expenditures	29,212,000	29,448,701	29,322,660	126,041
Excess of Revenues Over (Under) Expenditures	(2,210,011)	(2,446,970)	(2,884,253)	(437,283)
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	10	10	10	0
Total Other Financing Sources (Uses)	10	10	10	0
Net Change in Fund Balance	(2,210,001)	(2,446,960)	(2,884,243)	(437,283)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	4,983,151	4,983,151	4,983,151	0
Fund Balance End of Year	\$2,773,150	\$2,536,191	\$2,098,908	(\$437,283)

See accompanying notes to the required supplementary information.

SOUTHWEST LOCAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2006

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District 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 final amended certificate of estimated resources issued during the fiscal year 2006.

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$2,805,355)
Net Adjustment for Revenue Accruals	(170,380)
Net Adjustment for Expenditure Accruals	740,208
Encumbrances	<u>(648,716)</u>
Budget Basis	<u>(\$2,884,243)</u>

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster						
School Breakfast Program	05-PU	10.553	\$86,549	\$0	\$86,549	\$0
National School Lunch Program	LL-P4	10.555	272,933	0	272,933	0
Total Child Nutrition Cluster			359,482	0	359,482	0
Food Commodity Distribution	nn-n1	10.550	0	49,551	0	49,551
Total U.S. Department of Agriculture			359,482	49,551	359,482	49,551
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (Title VI-B)	6B-SF	84.027	849,634	0	872,480	0
Total Special Education Cluster			849,634	0	872,480	0
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	256,484	0	268,090	0
Safe and Drug Free Schools	DR-S1	84.186	11,719	0	12,128	0
Title V -- Innovative Education Program Strategies	C2-S1	84.298	19,696	0	18,608	0
Title II-D - Technology Literacy Challenge	TJ-S1	84.318	7,493	2,332	9,825	0
Improving Teacher Quality	TR-S1	84.367	111,159	0	112,847	0
Total U.S. Department of Education			1,256,186	2,332	1,293,979	0
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>						
Katrina Relief	HR-01	84.938	10,000	0	0	0
Total U.S. Department of Homeland Security			10,000	0	0	0
Totals			\$1,625,668	\$51,882	\$1,653,461	\$49,551

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

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

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



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*

Southwest Local School District
Hamilton County
230 South Elm Street
Harrison, Ohio 45030

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 Southwest Local School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated August 29, 2007, we reported other matters involving internal control over financial reporting which 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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the District's management dated August 29, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 29, 2007



Mary Taylor, CPA

Auditor of State

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

Southwest Local School District
Hamilton County
230 South Elm St.
Harrison, Ohio 45030

To the Board of Education:

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

Southwest Local School District
Hamilton County
Independent Accountants' Report on Compliance With Requirements
Applicable to Each Major Federal Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133
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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated August 29, 2007.

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

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

August 29, 2007

**SOUTHWEST LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2006-001

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

FINDING NUMBER 2006-001
(Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The District did not properly certify the availability of funds for purchase commitments for 29% of expenditures tested and none of the exceptions above applied. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the District uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend that the District certify all purchase to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

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

Officials' Response: We received no response.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.



Mary Taylor, CPA
Auditor of State

SOUTHWEST LOCAL SCHOOL DISTRICT

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 27, 2007**