



Dave Yost • Auditor of State



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis.....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position as of June 30, 2017 .....	13
Statement of Activities – For the Fiscal Year Ended June 30, 2017 .....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds June 30, 2017.....	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities as of June 30, 2017 .....	16
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2017 .....	17
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, 2017.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual -General Fund As of June 30, 2017 .....	19
Statement of Fiduciary Net Position – Fiduciary Funds As of June 30, 2017.....	20
Statement of Changes in Fiduciary Net Position – Fiduciary Fund For the Fiscal Year Ended June 30, 2017.....	21
Notes to the Basic Financial Statements .....	23
Required Supplemental Information	
Schedule of the District's Proportionate Share of the Net Pension Liability School Employees Retirement System of Ohio – Last Four Fiscal Years .....	57
Schedule of the District's Proportionate Share of the Net Pension Liability State Teachers Retirement System of Ohio – Last Four Fiscal Years.....	58
Schedule of District Contributions School Employees Retirement System of Ohio – Last Ten Fiscal Years .....	60
Schedule of District Contributions State Teachers Retirement System of Ohio – Last Ten Fiscal Years .....	62

HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

TABLE OF CONTENTS  
(Continued)

<b>TITLE</b>	<b>PAGE</b>
Notes to the Required Supplementary Information .....	64
Schedule of Federal Awards Receipts and Expenditures.....	65
Notes to Schedule of Federal Awards Receipts and Expenditures .....	66
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	67
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance Required by the Uniform Guidance .....	69
Schedule of Findings.....	71



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Hillsboro City School District  
Highland County  
39 Willettsville Pike  
Hillsboro, Ohio 45133

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsboro City School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsboro City School District, Highland County, Ohio, as of June 30, 2017, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards Receipts and Expenditures presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2018, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 7, 2018

**This page intentionally left blank.**



**Hillsboro City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2017*  
*Unaudited*

The discussion and analysis of Hillsboro City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

- The School District's Net Position decreased \$2,810,218. This was due mainly because of the increase in the net pension liability.
- The School District gave a 2 percent base increase in salary to all employees with the exception of the Treasurer and Superintendent.
- The School District built a new concession stand and a modern weight and wrestling building during fiscal year 2017.

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

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

One of the most important questions asked about the School District is "How did we do financially during fiscal year 2017?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**Hillsboro City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2017*  
*Unaudited*

These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

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

### **Fund Financial Statements**

The analysis of the School District's major funds begins on page eight. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds.

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

**Fiduciary Funds** - The School District's fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

### **The School District as a Whole**

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

Table 1 provides a summary of the School District's net position for fiscal years 2017 and 2016:

**Hillsboro City School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2017**  
**Unaudited**

(Table 1)  
Net Position  
Governmental Activities

	2017	2016	Change in Net Position
<b>Assets:</b>			
Current and Other Assets	\$23,477,170	\$24,683,889	(\$1,206,719)
Capital Assets, Net	54,163,306	54,111,613	51,693
Total Assets	<u>77,640,476</u>	<u>78,795,502</u>	<u>(1,155,026)</u>
<b>Deferred Outflows of Resources:</b>			
Deferred Charge on Refunding	212,767	231,623	(18,856)
Pension	8,014,483	3,386,032	4,628,451
Total Deferred Outflows of Resources	<u>8,227,250</u>	<u>3,617,655</u>	<u>4,609,595</u>
<b>Liabilities:</b>			
Other Liabilities	3,347,431	2,994,447	352,984
Long-Term Liabilities			
Due Within One Year	865,157	785,656	79,501
Due In More Than One Year:			
Net Pension Liability	41,973,872	33,871,956	8,101,916
Other Amounts	9,356,672	9,754,827	(398,155)
Total Liabilities	<u>55,543,132</u>	<u>47,406,886</u>	<u>8,136,246</u>
<b>Deferred Inflows of Resources:</b>			
Property Taxes	6,261,783	5,854,097	407,686
Pension	291,129	2,570,274	(2,279,145)
Total Deferred Inflows of Resources	<u>6,552,912</u>	<u>8,424,371</u>	<u>(1,871,459)</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	45,653,486	45,116,435	537,051
Restricted	3,172,194	6,027,724	(2,855,530)
Unrestricted (Deficit)	(25,053,998)	(24,562,259)	(491,739)
Total Net Position	<u>\$23,771,682</u>	<u>\$26,581,900</u>	<u>(\$2,810,218)</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

*Hillsboro City School District*  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2017*  
*Unaudited*

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

**Hillsboro City School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2017**  
**Unaudited**

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

Current and other assets decreased \$1,206,719 mainly due to a significant decrease in the School District's foundation funding.

Total liabilities increased \$8,136,246, this was due to the large increase in net pension liability.

Restricted net position decreased \$2,855,530. This is related mainly to the School District completing the new concession stand and modern weight and wrestling building.

Table 2 shows the changes in net position for fiscal years 2017 and 2016.

(Table 2)  
Changes in Net Position  
Governmental Activities

	2017	2016	Change
<b>Revenues:</b>			
Program Revenues:			
Charges for Services and Sales	\$2,098,555	\$2,063,242	\$35,313
Operating Grants, Contributions and Interest	4,405,786	4,409,600	(3,814)
Capital Grants and Contributions	7,800	7,800	0
Total Program Revenues	<u>6,512,141</u>	<u>6,480,642</u>	<u>31,499</u>
General Revenues:			
Property Taxes	6,111,004	6,768,267	(657,263)
Income Taxes	2,732,955	2,623,152	109,803
Grants and Entitlements not Restricted to Specific Programs	15,150,027	15,640,995	(490,968)
Gifts and Donations	3,501	19,065	(15,564)
Interest	(341,623)	484,233	(825,856)
Miscellaneous	286,774	231,090	55,684
Total General Revenues	<u>23,942,638</u>	<u>25,766,802</u>	<u>(1,824,164)</u>
Total Revenues	<u>\$30,454,779</u>	<u>\$32,247,444</u>	<u>(\$1,792,665)</u>

**Hillsboro City School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2017**  
**Unaudited**

(Table 2)  
Changes in Net Position  
Governmental Activities  
(continued)

	2017	2016	Change
<b>Program Expenses:</b>			
Instruction	\$20,177,338	\$17,740,354	\$2,436,984
Support Services:			
Pupils and Instructional Staff	2,762,134	2,300,074	462,060
Board of Education, Administration, Fiscal and Business	2,829,969	2,614,026	215,943
Operations and Maintenance of Plant	2,705,730	2,317,994	387,736
Pupil Transportation	1,774,447	1,685,050	89,397
Central	86,868	98,949	(12,081)
Operation of Non-Instructional Services	1,678,457	1,479,512	198,945
Extracurricular Activities	850,663	724,042	126,621
Interest and Fiscal Charges	399,391	420,280	(20,889)
Total Expenses	<u>33,264,997</u>	<u>29,380,281</u>	<u>3,884,716</u>
Change in Net Position	<u>(2,810,218)</u>	<u>2,867,163</u>	<u>(\$5,677,381)</u>
Net Position at Beginning of Year	<u>26,581,900</u>	<u>23,714,737</u>	
Net Position at End of Year	<u><u>\$23,771,682</u></u>	<u><u>\$26,581,900</u></u>	

Program revenues, which are primarily represented by tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues, were \$6,512,141 of total revenues for fiscal year 2017. The increase in program revenues was insignificant.

The School District remains heavily reliant on State funding. Grants and entitlements not restricted for specific purposes made up \$15,150,027 of revenues for governmental activities. The decrease from the prior year was a result of the School District receiving a decrease in State Foundation funding.

Instruction comprises \$20,177,338 of governmental activities program expenses. Support service expenses make up \$10,159,148 of governmental activities expenses. There was an overall increase of \$3,884,716 in expenditures when compared to fiscal year 2016. Instruction increased \$2,436,984 mainly due to a two percent base salary increase to all employees with the exception of the Treasurer and Superintendent.

The Statement of Activities shows the cost of program services and the charges for services and sales and grants, contributions and interest offsetting those services. The total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations.

**Hillsboro City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2017*  
*Unaudited*

**The School District's Funds**

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$30,627,542 and expenditures of \$32,572,048. The net change in fund balance for the General Fund decreased \$1,053,384. This was mainly due to a decrease in intergovernmental revenue related to a decrease in State funding during the fiscal year.

The Permanent Improvement Fund saw a decrease of \$203,764. This is mainly due to an increase in capital outlay for the costs of various permanent improvement projects within the School District.

**General Fund - Budget Highlights**

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

During the course of fiscal year 2017, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 17, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, the original budget basis revenue was \$27,230,673 with a final budget estimate of \$26,674,723. The decrease of \$555,950 was primarily due to an increase in budgeted intergovernmental revenue offset by a large decrease in property tax revenue. Actual revenues were slightly lower than the final budget estimates.

Original budget basis appropriations were \$25,183,706 with final budget basis appropriations of \$24,638,261. The variance of \$545,445 was due to decreases in regular and special instruction and support services instructional staff as well as small decreases in the remaining expenditures. This was due to the School District closely monitoring expenditures.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2017, the School District had \$54,163,306 invested in capital assets (net of accumulated depreciation), an increase of \$51,693. This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles and textbooks. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

***Hillsboro City School District***  
***Management's Discussion and Analysis***  
***For the Fiscal Year Ended June 30, 2017***  
***Unaudited***

***Debt***

At June 30, 2017, the School District had \$7,645,000 in bonds outstanding, \$625,000 of which is due within one year.

For more information about debt, refer to note 16 to the basic financial statements

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Ben Teeters, Treasurer at Hillsboro City School District, 39 Willettsville Pike, Hillsboro, Ohio 45133.



**Hillsboro City School District**  
Statement of Net Position  
June 30, 2017

	Governmental Activities
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$14,253,517
Inventory Held for Resale	26,017
Materials and Supplies Inventory	6,488
Accrued Interest Receivable	11,053
Accounts Receivable	44,635
Intergovernmental Receivable	556,974
Prepaid Items	34,621
Property Taxes Receivable	7,406,729
Income Taxes Receivable	1,137,136
Capital Assets:	
Land and Construction in Progress	950,795
Depreciable Capital Assets, Net	53,212,511
<i>Total Assets</i>	<i>77,640,476</i>
<b><u>Deferred Outflows of Resources:</u></b>	
Deferred Charge on Refunding	212,767
Pension	8,014,483
<i>Total Deferred Outflows of Resources</i>	<i>8,227,250</i>
<b><u>Liabilities:</u></b>	
Accounts Payable	389,749
Accrued Wages and Benefits Payable	2,081,689
Contracts Payable	368,058
Retainage Payable	26,773
Intergovernmental Payable	389,572
Accrued Interest Payable	22,583
Matured Compensated Absences Payable	69,007
Long-Term Liabilities:	
Due Within One Year	865,157
Due In More Than One Year:	
Net Pension Liability (See Note 12)	41,973,872
Other Amounts	9,356,672
<i>Total Liabilities</i>	<i>55,543,132</i>
<b><u>Deferred Inflows of Resources:</u></b>	
Property Taxes	6,261,783
Pension	291,129
<i>Total Deferred Inflows of Resources</i>	<i>6,552,912</i>
<b><u>Net Position:</u></b>	
Net Investment in Capital Assets	45,653,486
Restricted for:	
Debt Service	1,586,550
Food Service	603,634
Classroom Facilities	826,213
Other Purposes	150,677
Library Materials and Service:	
Expendable	120
Nonexpendable	5,000
Unrestricted (Deficit)	(25,053,998)
<i>Total Net Position</i>	<i>\$23,771,682</i>

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2017

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
<b><u>Governmental Activities:</u></b>					
Instruction:					
Regular	\$13,896,268	\$1,190,351	\$176,241	\$1,404	(\$12,528,272)
Special	5,715,207	374,532	2,758,125	0	(2,582,550)
Vocational	532,828	46,817	122,408	0	(363,603)
Student Intervention Services	33,035	0	0	0	(33,035)
Support Services:					
Pupils	1,441,858	0	0	0	(1,441,858)
Instructional Staff	1,320,276	3,188	162,483	3,822	(1,150,783)
Board of Education	29,426	0	0	0	(29,426)
Administration	2,228,745	0	0	0	(2,228,745)
Fiscal	567,335	0	0	0	(567,335)
Business	4,463	0	0	0	(4,463)
Operation and Maintenance of Plant	2,705,730	5,001	0	936	(2,699,793)
Pupil Transportation	1,774,447	0	80,820	0	(1,693,627)
Central	86,868	0	9,000	0	(77,868)
Operation of Non-Instructional Services:					
Food Service Operations	1,676,427	332,056	1,095,489	0	(248,882)
Other	2,030	0	0	0	(2,030)
Extracurricular Activities	850,663	146,610	1,220	1,638	(701,195)
Interest and Fiscal Charges	399,391	0	0	0	(399,391)
<b>Total Governmental Activities</b>	<b>\$33,264,997</b>	<b>\$2,098,555</b>	<b>\$4,405,786</b>	<b>\$7,800</b>	<b>(26,752,856)</b>

**General Revenues:**

Property Taxes Levied for:	
General Purposes	5,360,343
Debt Service	643,417
Facility Maintenance	107,244
Income Taxes	2,732,955
Grants and Entitlements not Restricted to Specific Programs	15,150,027
Contributions and Donations	3,501
Investment Earnings	(341,623)
Miscellaneous	286,774
<b>Total General Revenues</b>	<b>23,942,638</b>
<b>Change in Net Position</b>	<b>(2,810,218)</b>
<b>Net Position at Beginning of Year</b>	<b>26,581,900</b>
<b>Net Position at End of Year</b>	<b>\$23,771,682</b>

See accompanying notes to the basic financial statements

**Hillsboro City School District**

Balance Sheet  
Governmental Funds  
June 30, 2017

	General Fund	Permanent Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Assets:</u></b>				
Equity in Pooled Cash and Cash Equivalents	\$5,817,635	\$4,966,448	\$3,021,435	\$13,805,518
Receivables:				
Property Taxes	6,475,337	0	931,392	7,406,729
Income Taxes	1,137,136	0	0	1,137,136
Accounts	44,635	0	0	44,635
Intergovernmental	97,814	0	459,160	556,974
Accrued Interest	11,053	0	0	11,053
Interfund	187,908	0	0	187,908
Prepaid Items	31,027	0	3,594	34,621
Materials and Supplies Inventory	0	0	6,488	6,488
Inventory Held for Resale	0	0	26,017	26,017
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	447,999	0	0	447,999
<b>Total Assets</b>	<b>\$14,250,544</b>	<b>\$4,966,448</b>	<b>\$4,448,086</b>	<b>\$23,665,078</b>
<b><u>Liabilities:</u></b>				
Accounts Payable	\$71,340	\$303,825	\$14,584	\$389,749
Accrued Wages and Benefits Payable	1,849,558	0	232,131	2,081,689
Contracts Payable	0	368,058	0	368,058
Retainage Payable	0	26,773	0	26,773
Intergovernmental Payable	348,599	0	40,973	389,572
Interfund Payable	0	0	187,908	187,908
Matured Compensated Absences Payable	69,007	0	0	69,007
<b>Total Liabilities</b>	<b>2,338,504</b>	<b>698,656</b>	<b>475,596</b>	<b>3,512,756</b>
<b><u>Deferred Inflows of Resources:</u></b>				
Property Taxes	5,461,402	0	800,381	6,261,783
Unavailable Revenue	959,205	0	333,425	1,292,630
<b>Total Deferred Inflows of Resources</b>	<b>6,420,607</b>	<b>0</b>	<b>1,133,806</b>	<b>7,554,413</b>
<b><u>Fund Balances:</u></b>				
Nonspendable	31,027	0	15,082	46,109
Restricted	372,047	0	2,984,084	3,356,131
Committed	329,900	0	0	329,900
Assigned	932,090	4,267,792	0	5,199,882
Unassigned (Deficit)	3,826,369	0	(160,482)	3,665,887
<b>Total Fund Balances</b>	<b>5,491,433</b>	<b>4,267,792</b>	<b>2,838,684</b>	<b>12,597,909</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$14,250,544</b>	<b>\$4,966,448</b>	<b>\$4,448,086</b>	<b>\$23,665,078</b>

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2017

---

**Total Governmental Fund Balances** \$12,597,909

***Amounts reported for governmental activities in the  
 Statement of Net Position is different because:***

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	555,964
Construction in progress	394,831
Other capital assets	77,184,948
Accumulated depreciation	(23,972,437)

Total capital assets 54,163,306

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Delinquent property taxes	884,679
Income taxes	170,563
Intergovernmental	232,473
Investment earnings	4,915

1,292,630

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.

Deferred Outflows - Pension	8,014,483
Deferred Inflows - Pension	(291,129)
Net Pension Liability	(41,973,872)

(34,250,518)

Deferred outflows of resources include deferred charges on refunding which do not provide current financial resources and, therefore are not reported in the funds.

212,767

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

(22,583)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General Obligation Bonds payable	(7,645,000)
Premium on debt issuance	(337,805)
Accretion on capital appreciation bonds	(401,633)
Capital leases	(739,782)
Compensated absences	(1,097,609)

Total liabilities (10,221,829)

**Net Position of Governmental Activities** \$23,771,682

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2017

	General Fund	Permanent Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Revenues:</u></b>				
Property Taxes	\$5,362,250	\$0	\$809,853	\$6,172,103
Income Taxes	2,725,697	0	0	2,725,697
Intergovernmental	16,489,457	0	3,181,077	19,670,534
Investment Earnings	(376,680)	24,048	13,990	(338,642)
Tuition and Fees	1,560,551	0	0	1,560,551
Extracurricular Activities	32,145	0	113,099	145,244
Customer Sales and Service	49,978	6,506	332,056	388,540
Rent	3,220	1,000	0	4,220
Contributions and Donations	3,501	7,800	1,220	12,521
Miscellaneous	174,971	0	111,803	286,774
<i>Total Revenues</i>	<u>26,025,090</u>	<u>39,354</u>	<u>4,563,098</u>	<u>30,627,542</u>
<b><u>Expenditures:</u></b>				
Current:				
Instruction:				
Regular	11,718,457	54,875	195,980	11,969,312
Special	3,852,330	0	1,506,144	5,358,474
Vocational	484,920	0	0	484,920
Student Intervention Services	1,075	0	31,960	33,035
Other	42,092	0	96	42,188
Support Services:				
Pupils	1,381,882	0	0	1,381,882
Instructional Staff	886,560	149,700	171,894	1,208,154
Board of Education	29,426	0	0	29,426
Administration	2,027,745	0	0	2,027,745
Fiscal	530,685	28	31,595	562,308
Business	4,463	0	0	4,463
Operation and Maintenance of Plant	1,872,074	37,465	492,095	2,401,634
Pupil Transportation	1,561,750	0	8,246	1,569,996
Central	85,090	0	0	85,090
Operation of Non-Instructional Services:				
Food Service Operations	14,522	0	1,566,264	1,580,786
Other	0	0	1,387	1,387
Extracurricular Activities	439,937	66,381	216,285	722,603
Capital Outlay	0	2,023,879	152,052	2,175,931
Debt Service:				
Principal Retirement	0	0	622,000	622,000
Interest and Fiscal Charges	0	0	310,714	310,714
<i>Total Expenditures</i>	<u>24,933,008</u>	<u>2,332,328</u>	<u>5,306,712</u>	<u>32,572,048</u>
Excess of Revenues Over (Under) Expenditures	<u>1,092,082</u>	<u>(2,292,974)</u>	<u>(743,614)</u>	<u>(1,944,506)</u>
<b><u>Other Financing Sources (Uses):</u></b>				
Transfers In	0	2,089,210	56,256	2,145,466
Transfers Out	(2,145,466)	0	0	(2,145,466)
Inception of Capital Lease	0	0	147,782	147,782
<i>Total Other Financing Sources (Uses)</i>	<u>(2,145,466)</u>	<u>2,089,210</u>	<u>204,038</u>	<u>147,782</u>
<i>Net Change in Fund Balances</i>	<u>(1,053,384)</u>	<u>(203,764)</u>	<u>(539,576)</u>	<u>(1,796,724)</u>
<i>Fund Balances at Beginning of Year</i>	<u>6,544,817</u>	<u>4,471,556</u>	<u>3,378,260</u>	<u>14,394,633</u>
<i>Fund Balances at End of Year</i>	<u>\$5,491,433</u>	<u>\$4,267,792</u>	<u>\$2,838,684</u>	<u>\$12,597,909</u>

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Fiscal Year Ended June 30, 2017

---

**Net Change in Fund Balances - Total Governmental Funds** (\$1,796,724)

**Amounts reported for governmental activities in the  
Statement of Activities are different because:**

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital assets additions	2,175,931	
Depreciation expense	<u>(2,124,238)</u>	
Excess of depreciation over capital outlay expense		51,693

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	(61,099)	
Income taxes	7,258	
Intergovernmental	(120,219)	
Investment earnings	<u>1,297</u>	
Total		(172,763)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. 2,161,918

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (3,356,238)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. In the current fiscal year, these amounts consist of:

Bond payments	595,000	
Capital lease payments	<u>27,000</u>	
Total		622,000

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.

Inception of capital lease (147,782)

Amortization of bond premiums, deferred charges on the refunding of debt, accretion on bonds, as well as accrued interest payable on the bonds are not reported in the funds, but is allocated as an expense over the life of the debt in the Statement of Activities.

Decrease in accrued interest payable	2,098	
Amortization of bond premium	29,996	
Amortization of deferred charge on refunding	(18,856)	
Accretion on capital appreciation bonds	<u>(101,915)</u>	
Total		(88,677)

Some items 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. These activities consist of:

Increase in compensated absences payable (83,645)

**Change in Net Position of Governmental Activities** (\$2,810,218)

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$8,818,825	\$5,750,856	\$5,747,123	(\$3,733)
Income Taxes	2,364,857	2,687,506	2,686,013	(1,493)
Intergovernmental	14,447,584	16,418,739	16,409,957	(8,782)
Interest	48,943	55,621	55,621	0
Tuition and Fees	1,373,986	1,561,446	1,560,551	(895)
Extracurricular Activities	28,286	32,145	32,145	0
Customer Sales and Services	43,978	49,978	49,978	0
Rent	2,833	3,220	3,220	0
Gifts and Donations	3,081	3,501	3,501	0
Miscellaneous	98,300	111,711	111,711	0
<b>Total Revenues</b>	<b>27,230,673</b>	<b>26,674,723</b>	<b>26,659,820</b>	<b>(14,903)</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	11,724,252	11,541,213	11,730,694	(189,481)
Special	3,899,771	3,820,491	3,852,072	(31,581)
Vocational	477,209	468,020	483,811	(15,791)
Student Intervention Services	1,087	1,075	1,075	0
Support Services:				
Pupils	1,356,713	1,337,784	1,357,523	(19,739)
Instructional Staff	906,232	870,050	901,631	(31,581)
Board of Education	33,105	32,331	32,331	0
Administration	2,064,535	2,014,041	2,049,567	(35,526)
Fiscal	587,053	560,692	560,692	0
Business	4,511	4,463	4,463	0
Operation and Maintenance of Plant	2,018,728	1,917,407	1,948,987	(31,580)
Pupil Transportation	1,539,242	1,513,356	1,544,937	(31,581)
Central	87,298	85,722	85,722	0
Operation of Non-Instructional Services:				
Community Services	19,399	16,474	16,474	0
Extracurricular Activities	464,571	455,142	463,038	(7,896)
<b>Total Expenditures</b>	<b>25,183,706</b>	<b>24,638,261</b>	<b>25,033,017</b>	<b>(394,756)</b>
Excess of Revenues Over Expenditures	2,046,967	2,036,462	1,626,803	(409,659)
<b>Other Financing Sources (Uses):</b>				
Transfers In	129,900	129,900	0	(129,900)
Refund of Prior Year Expenditures	29,612	29,612	29,612	0
Transfers Out	(2,275,366)	(2,275,366)	(2,145,466)	129,900
<b>Total Other Financing Sources (Uses)</b>	<b>(2,115,854)</b>	<b>(2,115,854)</b>	<b>(2,115,854)</b>	<b>0</b>
Net Change in Fund Balance	(68,887)	(79,392)	(489,051)	(409,659)
Fund Balance at Beginning of Year	6,326,195	6,326,195	6,326,195	0
Prior Year Encumbrances Appropriated	342,223	342,223	342,223	0
<b>Fund Balance at End of Year</b>	<b>\$6,599,531</b>	<b>\$6,589,026</b>	<b>\$6,179,367</b>	<b>(\$409,659)</b>

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2017

---

	Private Purpose Trust	Agency
<b><u>Assets:</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$10,223	\$82,379
<b><u>Liabilities:</u></b>		
Undistributed Monies	0	\$82,379
<b><u>Net Position:</u></b>		
Held in Trust for Scholarships	\$10,223	

See accompanying notes to the basic financial statements



**Hillsboro City School District**  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2017

---

	Private Purpose Trust Fund
<b><u>Additions:</u></b>	\$0
<b><u>Deductions:</u></b>	
Payments in Accordance with Trust Agreements	2,500
<i>Change in Net Position</i>	(2,500)
<i>Net Position at Beginning of Year</i>	12,723
<i>Net Position at End of Year</i>	\$10,223

See accompanying notes to the basic financial statements

**This page intentionally left blank.**

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Hillsboro City School District (the School District) operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3307.7 and Section 119.01 of the Ohio Revised Code.

The School District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by State and/or federal agencies.

*Reporting Entity:*

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Hillsboro City School District, this includes general operations, food service, and student related activities of the School District. The following is also included within the reporting entity:

*Parochial Schools* – Within the School District boundaries, St. Mary Catholic School and Hillsboro Christian Academy are operated as private schools. Current State legislation provides funding to these parochial schools. Monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected in a special revenue fund and as part of governmental activities for financial reporting purposes.

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

The School District participates in one jointly governed organization and an insurance purchasing pool. These organizations are presented in Notes 20 and 21 to the basic financial statements. These organizations are:

Jointly Governed Organization:

Miami Valley Educational Computer Association

Insurance Purchasing Pool:

Ohio SchoolComp Group Retrospective Rating Program

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

*Government-wide Financial Statements*

The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the School District, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

The Statement of Net Position presents the financial condition of the governmental activities of the School District at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

*Fund Financial Statements*

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District fall within two categories: governmental and fiduciary.

*Governmental Funds*

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*General Fund* - The General Fund is the operating fund of the School District and is used to account for and report all financial resources not accounted for and reported in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Permanent Improvement Fund* - The Permanent Improvement Fund is used to account for and report property tax revenues restricted for the acquiring, constructing, or improving of school facilities or other capital outlays with a useful life of five years or more.

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

*Fiduciary Funds:*

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

**Measurement Focus**

*Government-wide Financial Statements:*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the School District are included on the Statement of Net Position. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

*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 deferred outflows of resources and current liabilities and deferred inflows of resources 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.

The private purpose trust fund is reported using the economic resources measurement focus.

HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows of resources, 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. "Measurable" means that the amount of the transaction can be determined and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, "available" means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Notes 7 and 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

*Deferred Outflows/Inflows of Resources:*

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported in the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 12.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources included property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, income taxes, interest, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 12). The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 14.

*Expenses/Expenditures:*

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2017, the School District's investments were limited to a money market mutual fund, commercial paper, Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Bonds, and negotiable certificates of deposit. Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2017 amounted to (\$376,680), which includes \$74,638 assigned from other School District funds.

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the General Fund include the amount required by State statute to be set aside to create a reserve for capital acquisitions and for budget stabilization.

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivable/Payable". These amounts are eliminated in the governmental columns of the Statement of Net Position.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

**Inventory**

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

**Capital Assets**

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by back-trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their acquisition values as of the date received. The capitalization threshold is \$2,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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



HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 - 40 years
Buildings and Improvements	20 - 40 years
Furniture, Fixtures and Equipment	3 - 15 years
Vehicles	8 - 15 years
Textbooks	7 years

**Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized a liability and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees are paid.

**Accrued Liabilities and Long-Term Obligations**

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

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

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable*

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Restricted*

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

*Committed*

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level of formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Committed fund balance also includes amounts for future severance payments.

*Assigned*

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education or a School District official delegated that authority by resolution or by State Statute. State Statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

*Unassigned*

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**Net Position**

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include activities for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Internal Activity**

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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 and are eliminated from the Statement of Activities. 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.

**Budgetary Process**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts 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 a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

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

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years.

**Bond Premiums and Compounded Interest on Capital Appreciation Bonds**

For governmental activities, bond premiums are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Capital appreciation bonds are accreted each fiscal year for the compounded interest accrued during the fiscal year. Bond premiums and the compounded interest on the capital appreciation bonds are presented as an addition to the face amount of the bonds payable.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

On the government-wide financial statements, bond premiums are recognized in the period in which the bonds were issued. Accretion on the capital appreciation bonds is not reported. Interest on the capital appreciation bonds is recorded as an expenditure when the debt becomes due.

Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

**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.

**NOTE 3 - ACCOUNTABILITY**

At June 30, 2017, the Alternative Education Challenge, Title VI-B Grant, Title I and Title II-A Improving Teacher Quality Funds had negative fund balances of \$22,668, \$35,772, \$94,723, and \$4,937, respectively. The deficits in these funds were created by the recognition of accrued liabilities. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

**NOTE 4 - FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 4 - FUND BALANCES (Continued)**

Fund Balances	General Fund	Permanent Improvement	Nonmajor Governmental Funds	Total
<i><b>Nonspendable</b></i>				
Prepays	\$31,027	\$0	\$3,594	\$34,621
Inventory	0	0	6,488	6,488
Library Materials	0	0	5,000	5,000
<i>Total Nonspendable</i>	<u>31,027</u>	<u>0</u>	<u>15,082</u>	<u>46,109</u>
<i><b>Restricted for</b></i>				
Debt Service	0	0	1,524,113	1,524,113
Food Service Operations	0	0	596,318	596,318
Miscellaneous Grants	0	0	21,547	21,547
Set Asides	372,047	0	0	372,047
Library Services	0	0	120	120
Extracurricular	0	0	31,792	31,792
Capital Maintenance	0	0	810,194	810,194
<i>Total Restricted</i>	<u>372,047</u>	<u>0</u>	<u>2,984,084</u>	<u>3,356,131</u>
<i><b>Committed to</b></i>				
Termination Benefits	329,900	0	0	329,900
<i><b>Assigned to</b></i>				
Purchases on Order	932,090	0	0	932,090
Capital Projects	0	4,267,792	0	4,267,792
<i>Total Assigned</i>	<u>932,090</u>	<u>4,267,792</u>	<u>0</u>	<u>5,199,882</u>
<i>Unassigned (Deficit)</i>	<u>3,826,369</u>	<u>0</u>	<u>(160,482)</u>	<u>3,665,887</u>
<i>Total Fund Balances</i>	<u><u>\$5,491,433</u></u>	<u><u>\$4,267,792</u></u>	<u><u>\$2,838,684</u></u>	<u><u>\$12,597,909</u></u>

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

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

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).

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)**

3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).
4. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statement. These amounts are included as revenue on the GAAP basis operating statement.

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

Net Change in Fund Balance	
GAAP Basis	(\$1,053,384)
Adjustments:	
Revenue Accruals	221,240
Expenditure Accruals	181,594
Encumbrances	(281,603)
Unrecorded Interest	4,874
Increase in Fair Market	
Value of Investments - 2016	425,927
Decrease in Fair Market	
Value of Investments - 2017	12,301
Budget Basis	(\$489,051)

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the School District can be deposited or invested in the following securities:

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)**

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed on hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Investments

As of June 30, 2017, the School District had the following investments:

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)**

Measurement / Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investment
Fair Value - Level One Inputs:				
Money Market Mutual Fund	\$515,492	Less than two years	AAAm	6.29%
Fair Value - Level Two Inputs:				
Abby National Treasury Discount				
Commercial Paper	1,498,455	Less than one year	N/A	18.29%
Federal Home Loan Mortgage				
Corporation Notes	248,517	Less than five years	AA+	N/A
Federal Home Loan Bank Bonds	992,680	Less than five years	AA+	12.12%
Negotiable Certificate of Deposits	4,937,163	Less than five years	AAA	60.27%
Total Level Two Inputs	<u>7,676,815</u>			
Total Investments	<u>\$8,192,307</u>			

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2017. The Money Market Mutual Fund is measured at fair value and is valued using quoted market prices (Level 1 inputs). The School District's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

**Interest Rate Risk**

The School District has no investment policy beyond State statute that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk**

The negotiable certificates of deposit are in denominations of under \$250,000 each, in separate banks, and are insured by the Federal Deposit Insurance Corporation (FDIC). The negotiable certificates of deposit are, therefore, not subject to credit risk. Ohio law requires that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

**Concentration of Credit Risk**

The School District places no limit on the amount it may invest in any one issuer.



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 7 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien December 31, 2015, were levied after April 1, 2016 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Highland County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes that are measurable as of June 30, 2017 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows - property taxes.

The amount available as an advance at June 30, 2017 was \$230,208 in the General Fund and \$30,059 in the Nonmajor Governmental Funds. The amount available as an advance at June 30, 2016 was \$615,081 in the General Fund and \$129,002 in the Nonmajor Governmental Funds.

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 reported as deferred inflows of resources-unavailable revenue.

The assessed values upon which the fiscal year 2017 taxes were collected are:

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 7 - PROPERTY TAXES (Continued)**

	2016 Second - Half Collections		2017 First - Half Collections	
	Amount	Percentage	Amount	Percentage
Agricultural/Residential and Other Real Estate	\$289,706,390	95.34%	\$292,215,240	92.14%
Public Utility Personal	14,157,180	4.66%	24,916,930	7.86%
Total Assessed Value	<u>\$303,863,570</u>	<u>100.00%</u>	<u>\$317,132,170</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$30.85		\$30.85	

**NOTE 8 - INCOME TAX**

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

**NOTE 9 - RECEIVABLES**

Receivables at June 30, 2017, consisted of property taxes, income taxes, accounts (student fees), intergovernmental grants, interest, and interfund. 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. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year.

Intergovernmental receivables consist of the following:

	<u>Amounts</u>
<u>Governmental Activities:</u>	
Idea - B Grant	\$157,030
Title I Grant	222,808
Title II - A Grant	15,222
Miscellaneous Federal Grants	64,100
BWC Receivable	52,485
Foundation Adjustment	<u>45,329</u>
Total Intergovernmental Receivables	<u>\$556,974</u>

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	<u>Balance at 6/30/16</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/17</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$555,964	\$0	\$0	\$555,964
Construction in Progress	1,251,043	1,654,768	(2,510,980)	394,831
Total Capital Assets Not Being Depreciated	<u>1,807,007</u>	<u>1,654,768</u>	<u>(2,510,980)</u>	<u>950,795</u>
Capital Assets Being Depreciated:				
Land Improvements	4,791,203	4,956	0	4,796,159
Buildings and Improvements	62,273,278	2,524,494	0	64,797,772
Furniture, Fixtures and Equipment	3,928,139	341,911	(2,727)	4,267,323
Vehicles	2,166,789	160,782	0	2,327,571
Textbooks	996,123	0	0	996,123
Totals Capital Assets Being Depreciated	<u>74,155,532</u>	<u>3,032,143</u>	<u>(2,727)</u>	<u>77,184,948</u>
Less Accumulated Depreciation:				
Land Improvements	(1,765,754)	(150,918)	0	(1,916,672)
Buildings and Improvements	(14,909,451)	(1,561,058)	0	(16,470,509)
Furniture, Fixtures and Equipment	(2,539,145)	(307,759)	2,727	(2,844,177)
Vehicles	(1,640,454)	(104,503)	0	(1,744,957)
Textbooks	(996,122)	0	0	(996,122)
Total Accumulated Depreciation	<u>(21,850,926)</u>	<u>(2,124,238) *</u>	<u>2,727</u>	<u>(23,972,437)</u>
Total Capital Assets Being Depreciated, Net	<u>52,304,606</u>	<u>907,905</u>	<u>0</u>	<u>53,212,511</u>
Governmental Activities Capital Assets, Net	<u>\$54,111,613</u>	<u>\$2,562,673</u>	<u>(\$2,510,980)</u>	<u>\$54,163,306</u>

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

Instruction:	
Regular	\$1,395,392
Special	58,749
Vocational	16,194
Support Services:	
Instructional Staff	61,782
Administration	82,218
Fiscal	1,074
Operation and Maintenance of Plant	257,814
Pupil Transportation	142,647
Operation of Non-Instructional Services - Food Service Operations	61,765
Extracurricular Activities	46,603
Total Depreciation Expense	<u>\$2,124,238</u>

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 11 - RISK MANAGEMENT**

**Property and Liability**

The School District is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The School District addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers.

General Liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 for automobile liability. The School District also has umbrella liability coverage with a limit of \$6,000,000. There has been no significant change in coverage from the prior fiscal year. Settled claims have not exceeded coverage in any of the past three years.

In addition, the School District maintains replacement cost insurance on buildings and contents in the blanket amount of \$89,691,487. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The School District pays all appointed officials' bonds by statute.

**Employee Medical Benefits**

Medical/surgical insurance is offered to employees through United Healthcare. Dental insurance is provided by Delta Dental and Vision coverage is provided through the Vision Service Plan.

The School District provides life insurance to employees through United Healthcare.

**Workers' Compensation**

For fiscal year 2017, the School District participated in the Ohio SchoolComp Group Retrospective Rating Program (GRRP), an insurance purchasing pool (See Note 21). The intent of the GRRP is to reward participants that are able to keep their claims costs below a predetermined amount. As part of the GRRP, school districts join together as a group. Each school district continues to pay its own individual premium to the State. However, each school district has the opportunity to receive retrospective premium adjustments (refunds or assessments) at 12, 24, and 36 months after the end of the policy year. At the end of each policy year, the Bureau of Workers' Compensation (BWC) will take a snap-shot of the incurred claims losses (indemnity, medical, and reserves) for the entire group and calculate the group's retrospective premium. If the retrospective premium that is calculated is less than the group's total standard premium, the participants will receive a refund. However, if the retrospective premium is greater than the group's total standard premium, an assessment will be levied by BWC. Each group limits the maximum assessment by selecting a premium cap between five percent and 100 percent of merit rated premium. Participation in the GRRP is limited to school districts that can meet the GRRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRRP.

**NOTE 12 – DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

**Plan Description - School Employees Retirement System (SERS)**

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$641,149 for fiscal year 2017. Of this amount \$155,725 is reported as an intergovernmental payable.

**Plan Description - State Teachers Retirement System (STRS)**

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://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. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,520,769 for fiscal year 2017. Of this amount \$187,574 is reported as an intergovernmental payable.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.11473810%	0.09887040%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.11632110%</u>	<u>0.09996184%</u>	
Change in Proportionate Share	<u>0.00158300%</u>	<u>0.00109144%</u>	
Proportionate Share of the Net Pension Liability	\$8,513,631	\$33,460,241	\$41,973,872
Pension Expense	\$904,410	\$2,451,828	\$3,356,238

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources:</b>			
Differences between expected and actual experience	\$114,829	\$1,351,954	\$1,466,783
Changes of assumptions	568,331	0	568,331
Net difference between projected and actual earnings on pension plan investments	702,251	2,778,099	3,480,350
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	48,575	288,526	337,101
School District contributions subsequent to the measurement date	<u>641,149</u>	<u>1,520,769</u>	<u>2,161,918</u>
Total Deferred Outflows of Resources	<u>\$2,075,135</u>	<u>\$5,939,348</u>	<u>\$8,014,483</u>
<b>Deferred Inflows of Resources:</b>			
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>\$0</u>	<u>\$291,129</u>	<u>\$291,129</u>

\$2,161,918 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	\$365,659	\$629,001	\$994,660
2019	365,152	629,002	994,154
2020	501,306	1,695,036	2,196,342
2021	201,869	1,174,411	1,376,280
Total	\$1,433,986	\$4,127,450	\$5,561,436

***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, compared with June 30, 2015 are presented below:

	June 30, 2016	June 30, 2015
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.50 percent to 18.20 percent 3 percent	4.00 percent to 22.00 percent 3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$11,271,517	\$8,513,631	\$6,205,166

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set back two years through age 89 and no set back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	<u>7.61 %</u>

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)**

***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$44,465,941	\$33,460,241	\$24,176,284

**Changes between Measurement Date and Report Date**

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2017, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**NOTE 13 – POST-EMPLOYMENT BENEFITS**

**School Employees Retirement System**

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 13 – POST-EMPLOYMENT BENEFITS (Continued)**

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$85,588.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$85,588, \$90,995, and \$90,446 respectively. The full amount has been contributed for fiscal years 2017, 2016 and 2015.

**State Teachers Retirement System of Ohio**

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, 2016, and 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

**NOTE 14 - EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. The classified employees working 12 months of the year earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 245 days for teachers and 248 days for administrators and classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum payment of 52 days for teachers and 54 days for administrators and classified employees.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 15 - CAPITALIZED LEASES – LESSEE DISCLOSURE**

During fiscal year 2017, the School District entered into a lease purchase agreement for a new food truck in the amount of \$147,782.

In previous fiscal years, the School District entered into lease purchase agreements for a new bus garage and for the construction of a gymnasium. The School District is leasing the projects from Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the projects during the lease term. Columbus Regional Airport Authority assigned U.S. Bank as trustee. U.S. Bank deposited \$205,000 and \$613,000, respectively, in the School District's name for the construction of the project. Amounts were paid to contractors by the School District as the work progressed. The School District then submitted invoices to the agent for reimbursement. The School District makes semi-annual lease payments to U.S. Bank. The interest rate is fixed at 4.17 percent plus an annual administrative fee on both leases. The leases are renewable annually and expire in fiscal year 2032. The intention of the School District is to renew the leases annually.

Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments totaled \$27,000 during fiscal year 2017.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Asset:			
Buildings and Improvements	\$818,000	(\$192,395)	\$625,605
Vehicles	147,782	0	147,782
Totals	\$965,782	(\$192,395)	\$773,387

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of fiscal year-end.

Fiscal Year Ending June 30,	Total Payments
2018	\$100,160
2019	103,967
2020	104,577
2021	58,729
2022	55,075
2023-2027	274,641
2028-2032	270,932
Total Minimum Lease Payments	968,081
Less Amount Representing Interest and Fees	(228,299)
Present Value of Minimum Lease Payments	\$739,782

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 16 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2017 were as follows:

	Amount Outstanding 6/30/16	Additions	Deductions	Amount Outstanding 6/30/17	Amounts Due in One Year
<i>Governmental Activities:</i>					
General Obligation Bonds:					
School Improvements - 2001 3.25%	\$1,120,000	\$0	\$350,000	\$770,000	\$375,000
School Improvements Refunding -					
2011 3.5%-4.15%	4,490,000	0	65,000	4,425,000	70,000
Capital Appreciation Bonds 3.62%-3.86%	435,000	0	0	435,000	0
Premium on Refunding Bonds	171,492	0	14,291	157,201	0
Accretion on Capital Appreciation Bonds	235,968	59,415	0	295,383	0
School Improvements Refunding					
Bonds 2014 1.00%-3.50%					
Serial Bonds	1,115,000	0	180,000	935,000	180,000
Term Bonds	1,070,000	0	0	1,070,000	0
Capital Appreciation Bonds	10,000	0	0	10,000	0
Premium on Debt Issue	196,309	0	15,705	180,604	0
Accretion on Capital Appreciation Bonds	63,750	42,500	0	106,250	0
Total General Obligation Bonds	<u>8,907,519</u>	<u>101,915</u>	<u>624,996</u>	<u>8,384,438</u>	<u>625,000</u>
Net Pension Liability:					
STRS	27,324,887	6,135,354	0	33,460,241	0
SERS	6,547,069	1,966,562	0	8,513,631	0
Total Net Pension Liability	<u>33,871,956</u>	<u>8,101,916</u>	<u>0</u>	<u>41,973,872</u>	<u>0</u>
Capital Leases	619,000	147,782	27,000	739,782	73,157
Compensated Absences	1,013,964	183,099	99,454	1,097,609	167,000
Total Governmental Activities					
Long-Term Liabilities	<u>\$44,412,439</u>	<u>\$8,534,712</u>	<u>\$751,450</u>	<u>\$52,195,701</u>	<u>\$865,157</u>

**School Improvement Bonds 2001**

On November 15, 2001, the School District issued \$10,000,000 in general obligation bonds for the purpose of construction, improvements, renovations and additions to classroom facilities and providing equipment, furnishings and site improvements. These bonds are being paid from property tax revenues. The bonds were issued for a 27 year period, with final maturity in December 2028. The bonds will be retired from the Debt Service Fund.

In June 2011, the School District issued \$5,830,000 in school improvement bonds for the purpose of refunding a portion of the 2001 School Improvement Bonds. \$5,395,000 were serial bonds and \$435,000 were capital appreciation bonds. The bonds were issued for an 18 year period, with final maturity in December 2029.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 16 - LONG-TERM OBLIGATIONS (Continued)**

The School District defeased the 2001 School Improvement Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments due on the old bonds. Accordingly, the trust assets and the liability of the defeased bonds are not included in the School District's financial statements. As of June 30, 2014, the defeased bonds were paid in full.

The capital appreciation bonds will mature in fiscal years 2021 and 2022. The maturity amount of the capital appreciation bonds will be \$940,000.

In November 2014, the School District issued \$2,245,000 in School Improvement General Obligation Bonds for the purpose of refunding a portion of the 2006 School Improvement Bonds. This was an advance refunding. \$1,165,000 were serial bonds, \$1,070,000 were term bonds, and \$10,000 were Capital Appreciation Bonds. The bonds were issued for a 15 year period, with final maturity in December 2028. As a result, \$2,245,000 of the 2006 school improvement bonds are considered defeased and the liability for the refunded bonds has been removed from the School District's financial statements. As of June 30, 2016, the defeased bonds were paid in full.

Compensated absences will be paid from the General Fund. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the General Fund. For additional information related to the net pension liability see note 12.

The School District's overall legal debt margin was \$22,421,008 with an unvoted debt margin of \$317,132 at June 30, 2017.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2017, are as follows:

School Improvement Bonds							
Fiscal Year	Serial Bonds	Serial Bonds	Capital	Capital	Term Bonds	Term Bonds	Total
Ending June 30,	Principal	Interest	Appreciation Principal	Appreciation Interest	Principal	Interest	
2018	\$625,000	\$257,518	\$0	\$0	\$0	\$0	\$882,518
2019	465,000	181,300	10,000	219,645	0	0	875,945
2020	185,000	47,795	225,000	245,000	0	0	702,795
2021	185,000	44,095	210,000	260,000	0	0	699,095
2022	660,000	199,147	0	0	0	0	859,147
2023-2027	2,815,000	548,076	0	0	835,000	87,212	4,285,288
2028-2029	1,195,000	49,966	0	0	235,000	4,463	1,484,429
Total	\$6,130,000	\$1,327,897	\$445,000	\$724,645	\$1,070,000	\$91,675	\$9,789,217



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 17 - INTERFUND ACTIVITY**

**Interfund Transfers**

Transfers made during the fiscal year ended June 30, 2017, were as follows:

Transfer From	Transfer To		
	Permanent Improvement Fund	Nonmajor Governmental Fund	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
General Fund	<u>\$2,089,210</u>	<u>\$56,256</u>	<u>\$2,145,466</u>

Transfers were made from the General Fund to the Permanent Improvement Fund to help pay for additional permanent improvements made by the School District. Transfers were also made from the General Fund to the Nonmajor Governmental Fund for debt payments.

**Interfund Balances**

Interfund balances at June 30, 2017, consist of the following individual interfund receivables and payable:

Payable	Receivable
	Nonmajor Governmental Funds
General Fund	<u>\$187,908</u>

Advancing monies to other funds is necessary due to timing difference in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

**NOTE 18 - SET-ASIDE CALCULATIONS**

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

The School District is no longer required to set aside funds in the budget reserve, with the exception of monies received from the Bureau of Workers' Compensation prior to April 10, 2001, which must be retained for budget stabilization or spent for specified purposes.

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 18 - SET-ASIDE CALCULATIONS (Continued)**

	Capital Acquisition	Budget Stabilization
Set-aside Balance as of June 30, 2016	\$248,778	\$75,952
Current Fiscal Year Set-aside Requirement	447,056	0
Prior Year Offset from Bond Proceeds	(188,240)	0
Current Fiscal Year Qualifying Expenditures	(135,547)	0
Set-aside Balance Carried Forward to Future Fiscal Years	\$372,047	\$75,952
Set-aside Balance as of June 30, 2017	\$372,047	\$75,952

The total reserve balance at the end of the fiscal year was \$447,999.

**NOTE 19 - CONTINGENCIES**

**Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2017.

**School Foundation**

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

**Litigation**

The School District is not party to any legal proceeding.

**NOTE 20 - JOINTLY GOVERNED ORGANIZATION**

**Miami Valley Educational Computer Association**

The School District is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)**

**NOTE 20 - JOINTLY GOVERNED ORGANIZATION (Continued)**

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts, except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The Board exercises total control over the operations of the consortium including budgeting, appropriating, contracting and designating management. Each School District and Educational Service Center's degree of control is limited to its representation on the Board. The School District paid MVECA \$114,442 for services provided during fiscal year 2017. Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

**NOTE 21 – INSURANCE PURCHASING POOL**

**Ohio SchoolComp Group Retrospective Rating Program**

The School District participates in the Ohio SchoolComp Group Retrospective Rating Program (GRRP), an insurance purchasing pool. The GRRP's business and affairs are conducted by a five member Board of Directors. Each fiscal year, the participants pay an enrollment fee to CompManagement, Inc. to cover the costs of administering the program.

**NOTE 22 – SIGNIFICANT COMMITMENTS**

**Contractual Commitments**

The following table provides a summary of the outstanding contractual commitments as of June 30, 2017:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Amount Remaining</u>
Ford Construction	\$267,998	\$129,522	\$138,476
Cox Paving	399,536	0	399,536
Musco	68,000	0	68,000
Mid-State	16,800	0	16,800
Total	<u>\$752,334</u>	<u>\$129,522</u>	<u>\$622,812</u>

**Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$281,603
Permanent Improvement Fund	650,987
Nonmajor Governmental Funds	149,363
Total	<u>\$1,081,953</u>

HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(Continued)

**NOTE 23- CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the School District's 2017 financial statements; however, there was no effect on beginning net position/fund balance. The School District had no abatements that met the GASB 77 definition.

The School District also implemented GASB's *Implementation Guide No. 2016-1*. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

**Hillsboro City School District**  
 Required Supplementary Information  
 Schedule of the School District's Proportionate Share of the Net Pension Liability  
 School Employees Retirement System of Ohio  
 Last Four Fiscal Years (1) \*

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.11632110%	0.11473810%	0.11436300%	0.11436300%
School District's Proportionate Share of the Net Pension Liability	\$8,513,631	\$6,547,069	\$5,787,847	\$6,800,801
School District's Covered-Employee Payroll	\$3,337,007	\$3,457,564	\$3,373,053	\$3,167,855
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	255.13%	189.35%	171.59%	214.68%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the School District's measurement date which is prior fiscal year end.

**Hillsboro City School District**  
 Required Supplementary Information  
 Schedule of the School District's Proportionate Share of the Net Pension Liability  
 State Teachers Retirement System of Ohio  
 Last Four Fiscal Years (1) \*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Proportion of the Net Pension Liability	0.09996184%	0.09887040%	0.10050223%	0.10050223%
School District's Proportionate Share of the Net Pension Liability	\$33,460,241	\$27,324,887	\$24,445,620	\$29,119,463
School District's Covered-Employee Payroll	\$11,057,693	\$10,326,771	\$9,942,224	\$10,592,931
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	302.60%	264.60%	245.88%	274.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the School District's measurement date which is prior fiscal year end.

**This page intentionally left blank.**

**Hillsboro City School District**  
 Required Supplementary Information  
 Schedule of School District Contributions  
 School Employees Retirement System of Ohio  
 Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$641,149	\$467,181	\$455,708	\$467,505
Contributions in Relation to the Contractually Required Contribution	<u>(641,149)</u>	<u>(467,181)</u>	<u>(455,708)</u>	<u>(467,505)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$4,579,636	\$3,337,007	\$3,457,564	\$3,373,053
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%



2013	2012	2011	2010	2009	2008
\$438,431	\$426,036	\$306,375	\$269,827	\$353,345	\$526,099
(438,431)	(426,036)	(306,375)	(269,827)	(353,345)	(526,099)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$3,167,855	\$3,167,551	\$2,437,350	\$1,992,817	\$3,590,902	\$5,357,424
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

**Hillsboro City School District**  
 Required Supplementary Information  
 Schedule of School District Contributions  
 State Teachers Retirement System of Ohio  
 Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$1,520,769	\$1,551,602	\$1,445,748	\$1,292,489
Contributions in Relation to the Contractually Required Contribution	<u>(1,520,769)</u>	<u>(1,551,602)</u>	<u>(1,445,748)</u>	<u>(1,292,489)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$10,862,636	\$11,057,693	\$10,326,771	\$9,942,224
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.03%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$1,377,081	\$1,279,824	\$287,851	\$254,682	\$326,413	\$490,740
<u>(1,377,081)</u>	<u>(1,279,824)</u>	<u>(287,851)</u>	<u>(254,682)</u>	<u>(326,413)</u>	<u>(490,740)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$10,592,931	\$9,844,800	\$2,214,238	\$1,959,092	\$2,510,869	\$3,774,923
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Changes in Assumptions - SERS**

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/ Pass Through Grantor Program Title	Federal pass- thru	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Non-Cash Assistance:						
National School Lunch Program	3L60	10.555		\$ 80,394		\$ 80,394
Cash Assistance:						
National School Breakfast Program	3L70	10.553	272,669		272,669	
National School Lunch	3L60	10.555	570,030		570,030	
Special Milk Program	3L60	10.556	1,237		1,237	
<i>Total Nutrition Cluster</i>			843,936	80,394	843,936	80,394
<b>Total U.S. Department of Agriculture</b>			843,936	80,394	843,936	80,394
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title 1						
Title 1 - FY 16	3M00	84.010	205,846		113,483	
Title 1 - FY 17		84.010	982,357		1,055,992	
Title 1 - School Improvement FY16		84.010	3,873		-	
<i>Total Title I</i>			1,192,076		1,169,475	
Special Education Cluster:						
Special Education Grants to States						
IDEA Part B - FY16	3M20	84.027	128,111		53,779	
IDEA Part B - FY17			402,811		449,111	
Total IDEA Part B			530,922		502,890	
Preschool Subsidy - FY 17	3C50	84.173	5,125		5,125	
<i>Total Special Education Cluster</i>			536,047		508,015	
Title II-A Improving Teacher Quality - FY16	3Y60	84.367	12,968		6,385	
Title II-A Improving Teacher Quality - FY17			130,520		138,111	
Total Title II-A Improving Teacher Quality			143,488		144,496	
Small, Rural School Achievement Program FY16	3Y80	84.358	28,256		8,784	
Small, Rural School Achievement Program FY17			2,820		40,504	
Total Small, Rural School Achievement Program			31,076		49,288	
<i>Passed through Great Oaks Institute of Technology and Career Development</i>						
Career Education - FY17	N/A	84.048	6,000		6,000	
			6,000		6,000	
<b>Total U.S. Department of Education</b>			<b>1,908,687</b>		<b>1,877,274</b>	
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b>\$ 2,752,623</b>	<b>\$ 80,394</b>	<b>\$ 2,721,210</b>	<b>\$ 80,394</b>

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of Hillsboro City School District (the District) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE D – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



# Dave Yost • Auditor of State

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

Hillsboro City School District  
Highland County  
39 Willettsville Pike  
Hillsboro, Ohio 45133

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsboro City School District, Highland County, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 7, 2018.

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

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 7, 2018





# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Hillsboro City School District  
Highland County  
39 Willettsville Pike  
Hillsboro, Ohio 45133

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited Hillsboro City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect Hillsboro City School District's major federal programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Each Major Federal Programs***

In our opinion, Hillsboro City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affects each of its major federal programs for the year ended June 30, 2017.

***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on the major federal programs' compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

March 7, 2018

HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY  
SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2017

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**This page intentionally left blank.**



# Dave Yost • Auditor of State

HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 27, 2018