

Hillsdale Local School District

Audited Financial Statements

June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
Hillsdale Local School District
485 TR 1902
Jeromesville, OH 44840

We have reviewed the *Independent Auditor's Report* of the Hillsdale Local School District, Ashland County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 9, 2007

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

JUNE 30, 2006

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

JUNE 30, 2006

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October 25, 2006

To the Board of Education
Hillsdale Local School District
Jeromesville, OH 44840

Independent Auditor's Report

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

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

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

In accordance with *Government Auditing Standards*, we also have issued our report dated October 25, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Hillsdale Local School District
Independent Accountants' Report
October 25, 2006
Page 2

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

Hea & Associates, Inc.

*Hillsdale Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- General Revenues accounted for \$8.0 million in revenue or 82 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1.7 or 18 percent of total revenues of \$9.7 million.
- Total program expenses were \$9.8 million.
- In total, net assets decreased \$104,562.
- Outstanding bonded debt decreased from \$232,850 to \$217,850 through the payment of bond principal.

Using this Annual Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

*Hillsdale Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

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

In the Statement of Net Assets and the Statement of Activities, the School District is reported as a governmental activity.

- Governmental Activities - Most of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - The School District maintains one type of proprietary fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominantly benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

The proprietary fund financial statements begin on page 17.

Fiduciary Funds – The School District's fiduciary funds are for Student Managed Activities and Student Scholarships. The School District's fiduciary activities are reported in the Statement of Fiduciary Assets and Liabilities. We exclude those activities from the School District's other financial statements because the assets can't be used by the School District to finance operations.

The fiduciary fund financial statements begin on page 20.

*Hillsdale Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22.

The School District as a Whole

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

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

**(Table 1)
Net Assets**

	Governmental Activities	
	2006	2005
Assets		
Current and Other Assets	\$ 5,327,745	\$ 4,856,231
Capital Assets	3,320,311	3,612,559
<i>Total Assets</i>	8,648,056	8,468,790
Liabilities		
Long-Term Liabilities	1,110,022	1,098,813
Other Liabilities	4,757,106	4,484,487
<i>Total Liabilities</i>	5,867,128	5,583,300
Net Assets		
Invested in Capital Assets Net of Debt	3,102,288	3,338,562
Restricted	172,933	108,085
Unrestricted (Deficit)	(494,293)	(561,157)
<i>Total Net Assets</i>	\$ 2,780,928	\$ 2,885,490

Total assets increased by \$179,266. An increase of taxes receivable represents the majority of the increase. Total liabilities increased by \$283,828. This is the result of an increase in deferred revenue due to property taxes.

*Hillsdale Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Table 2 shows the changes in net assets for fiscal years 2006 and 2005. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	2006	2005
Revenues:		
<i>Program Revenues:</i>		
Charges for Services	\$ 756,924	\$ 727,103
Operating Grants	944,743	904,860
Capital Grants	21,429	10,198
<i>General Revenue:</i>		
Property Taxes	3,749,135	3,412,476
Grants and Entitlements	4,121,353	4,060,532
Other	127,176	151,210
<i>Total Revenues</i>	9,720,760	9,266,379
Program Expenses:		
Instruction	5,664,451	5,549,281
Support Services	3,388,970	3,219,664
Operation of Non-Instructional	346,178	375,903
Extracurricular Activities	413,178	380,131
Interest and Fiscal Charges	12,545	17,454
<i>Total Expenses</i>	9,825,322	9,542,433
<i>Decrease in Net Assets</i>	\$ (104,562)	\$ (276,054)

Governmental Activities

Information about the School District's governmental activities starts on page 10.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$9.7 million and expenditures of \$9.8 million.

*Hillsdale Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

**(Table 3)
Governmental Activities**

	2006		2005	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 5,664,451	\$ 4,774,905	\$ 5,549,281	\$ 4,648,866
Support Services:				
Pupil and Instructional Staff	927,913	753,951	805,915	670,617
Board of Education, Administration and Fiscal	1,171,653	1,089,802	1,111,947	1,037,445
Operation and Maintenance of Plant	585,765	585,765	606,707	605,499
Pupil Transportation	694,639	687,632	686,020	675,822
Central	9,000	0	9,075	75
Operation of Non-Instructional Extracurricular Activities	346,178	(45,427)	375,903	15,752
Interest and Fiscal Charges	413,178	243,053	380,131	228,742
	12,545	12,545	17,454	17,454
Total Expenses	\$ 9,825,322	\$ 8,102,226	\$ 9,542,433	\$ 7,900,272

Instruction and student support services comprise 92.1 percent of governmental program expenses. Interest/fiscal charges were .1 percent. Interest expense was attributable to the outstanding bonds, and fiscal expenses include payments to the County Auditor(s) for administrative fees. Extracurricular and operation of non-instructional services of facilities accounts for 7.8 percent of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for Hillsdale Local School District students.

General Fund Budgeting Highlights

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

The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$8.3 million, under the original budget estimates of \$8.0 million. Of this \$300,000 increase, most was attributable to an increase in tax revenue.

Final appropriations of \$9.0 million, were \$214,000 higher than the \$8.8 million in the original budget. Due mainly to an increase in support services.

*Hillsdale Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$3.3 million invested in land, buildings, equipment, and textbooks. Table 4 shows fiscal year 2006 balances compared with 2005.

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

	Governmental Activities	
	2006	2005
Land	\$ 227,735	\$ 227,735
Buildings and Improvements	2,359,752	2,445,033
Furniture and Equipment	444,443	536,060
Vehicles	201,060	212,629
Infrastructure	13,026	115,997
Textbooks	74,295	75,105
Totals	\$ 3,320,311	\$ 3,612,559

The \$292,248 decrease in capital assets was attributable to depreciation expense exceeding additional purchases.

Senate Bill 345 requires the School District to set aside \$155.07 per pupil of certain general fund revenues in each of two areas, one for the purchase of textbooks and materials related to instruction and the other for capital outlay. For fiscal year 2006, this amounted to \$160,054 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks.

Debt

At June 30, 2006, the School District had \$217,850 in bonds outstanding with \$17,500 due within one year. During fiscal year 2006, \$15,000 of general obligation bonds were retired. Table 5 summarizes bonds outstanding.

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

	Governmental Activities 2006	Governmental Activities 2005
General Obligation Bonds: HB 264	\$ 217,850	\$ 232,850

In 1999, the School District entered into an energy conservation loan providing \$287,000 for energy conservation improvements to school buildings.

*Hillsdale Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Current Issues

The Hillsdale Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last new operating levy passed by the residents of the district was in August, 1999, with the promise that the revenue generated by a levy would provide sufficient funding for four years. The Board of Education replaced a 7.9 mill operating levy in November 2004 and a 4.8 mill operating levy in November 2005. In November 2006 the Board of Education is submitting a replacement of a 3.0 mills continuing operating levy to the residents of the School District.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 38% of revenues for governmental activities for the Hillsdale Local School District in year 2006.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched for the four years it was planned. This has been made increasingly difficult with mandates in rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Hillsdale Local School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. With the approval of the biennial budget, effective July 1, 2006, the State revenue is not anticipated to grow. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

*Hillsdale Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Marjorie Travis, Treasurer of Hillsdale Local School District, 485 TR 1902, Jeromesville, Ohio. e-mail hill_travis@tccsa.net.

Hillsdale Local School District

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 523,967
Cash and Cash Equivalents with Fiscal Agent	545,459
Receivables:	
Taxes	4,095,753
Accounts	7,927
Intergovernmental	19,626
Prepaid Items	121,446
Inventory Held For Resale	10,218
Materials and Supplies	3,349
Nondepreciable Capital Assets	227,735
Depreciable Capital Assets, Net	<u>3,092,576</u>
<i>Total Assets</i>	<u>8,648,056</u>
Liabilities	
Accounts Payable	9,787
Accrued Wages and Benefits	872,401
Intergovernmental Payable	196,527
Deferred Revenue	3,285,511
Claims Payable	392,880
Long Term Liabilities:	
Due Within One Year	26,884
Due Within More Than One Year	<u>1,083,138</u>
<i>Total Liabilities</i>	<u>5,867,128</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,102,288
Restricted for:	
Capital Projects	116,209
Other Purposes	56,724
Unrestricted (Deficit)	<u>(494,293)</u>
<i>Total Net Assets</i>	<u>\$ 2,780,928</u>

The accompanying notes are an integral part of the basic financial statements.

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

	Program Revenues				Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 4,457,927	\$ 321,332	\$ 82,887	\$ 14,422	\$ (4,039,286)
Special	637,591	0	407,030	0	(230,561)
Vocational	328,552	0	63,875	0	(264,677)
Other	240,381	0	0	0	(240,381)
Support Services:					
Pupils	531,244	0	134,927	0	(396,317)
Instructional Staff	396,669	0	39,035	0	(357,634)
Board of Education	30,387	0	2,000	0	(28,387)
Administration	850,458	0	79,851	0	(770,607)
Fiscal	290,808	0	0	0	(290,808)
Operation and Maintenance of Plant	585,765	0	0	0	(585,765)
Pupil Transportation	694,639	0	0	7,007	(687,632)
Central	9,000	0	9,000	0	0
Operation of Non-Instructional Services:					
Food Service Operations	345,189	265,467	126,138	0	46,416
Community Services	989	0	0	0	(989)
Extracurricular Activities	413,178	170,125	0	0	(243,053)
Interest and Fiscal Charges	12,545	0	0	0	(12,545)
<i>Total Governmental Activities</i>	<u>\$ 9,825,322</u>	<u>\$ 756,924</u>	<u>\$ 944,743</u>	<u>\$ 21,429</u>	<u>(8,102,226)</u>
 General Revenues					
Property Taxes Levied for:					
General Purposes					3,643,494
Capital Outlay					105,641
Grants and Entitlements not Restricted to Specific Programs					4,121,353
Investment Earnings					45,902
Miscellaneous					81,274
<i>Total General Revenues</i>					<u>7,997,664</u>
Change in Net Assets					(104,562)
<i>Net Assets Beginning of Year</i>					<u>2,885,490</u>
<i>Net Assets End of Year</i>					<u>\$ 2,780,928</u>

The accompanying notes are an integral part of the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 316,022	\$ 189,911	\$ 505,933
Restricted Cash and Cash Equivalents	18,034	0	18,034
Receivables:			
Taxes	3,996,093	99,660	4,095,753
Accounts	4,278	3,649	7,927
Intergovernmental	2,425	17,201	19,626
Prepaid Items	113,190	8,256	121,446
Interfund Receivable	68,220	0	68,220
Inventory Held for Resale	0	10,218	10,218
Materials and Supplies	0	3,349	3,349
<i>Total Assets</i>	<u>\$4,518,262</u>	<u>\$332,244</u>	<u>\$4,850,506</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 8,698	\$ 1,089	\$ 9,787
Accrued Wages and Benefits	827,122	45,279	872,401
Intergovernmental Payable	184,066	12,461	196,527
Interfund Payable	0	68,220	68,220
Deferred Revenue	3,326,162	83,634	3,409,796
<i>Total Liabilities</i>	<u>4,346,048</u>	<u>210,683</u>	<u>4,556,731</u>
Fund Balances			
Fund Balances:			
Reserved for Encumbrances	104,506	59,918	164,424
Reserved for Prepaid Items	113,190	8,256	121,446
Reserved for Property Taxes	669,931	16,685	686,616
Reserved for Bus Purchase	18,034	0	18,034
Unreserved, Undesignated, Reported in:			
General Fund	(733,447)	0	(733,447)
Special Revenue Funds	0	(11,410)	(11,410)
Capital Projects Funds	0	48,112	48,112
<i>Total Fund Balances</i>	<u>172,214</u>	<u>121,561</u>	<u>293,775</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,518,262</u>	<u>\$ 332,244</u>	<u>\$ 4,850,506</u>

The accompanying notes are an integral part of the basic financial statements.

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

Total Governmental Fund Balances		\$ 293,775
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,320,311
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 659	
Delinquent Property Taxes	<u>245,072</u>	
Total		245,731
One internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		31,133
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:		
Energy Conservation Notes	(217,850)	
Compensated Absences Payable	(891,999)	
Capital Leases Payable	<u>(173)</u>	
Total		<u>(1,110,022)</u>
 <i>Net Assets of Governmental Activities</i>		 <u><u>\$ 2,780,928</u></u>

The accompanying notes are an integral part of the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,607,498	\$ 102,654	\$ 3,710,152
Intergovernmental	4,432,410	657,528	5,089,938
Investment Income	45,902	0	45,902
Tuition and Fees	285,216	36,116	321,332
Extracurricular Activities	0	170,125	170,125
Charges for Services	0	265,467	265,467
Contributions and Donations	9,249	5,278	14,527
Miscellaneous	23,276	57,998	81,274
<i>Total Revenues</i>	8,403,551	1,295,166	9,698,717
Expenditures			
Current:			
Instruction:			
Regular	4,338,471	164,742	4,503,213
Special	514,827	151,948	666,775
Vocational	327,829	4,948	332,777
Other	240,381	0	240,381
Support Services:			
Pupils	409,708	138,181	547,889
Instructional Staff	317,697	49,533	367,230
Board of Education	37,093	0	37,093
Administration	759,610	126,036	885,646
Fiscal	296,177	2,302	298,479
Operation and Maintenance of Plant	586,178	5,207	591,385
Pupil Transportation	671,498	2,302	673,800
Central	0	9,000	9,000
Operation of Non-Instructional Services:			
Food Service Operations	0	374,408	374,408
Community Services	989	0	989
Extracurricular Activities	216,469	172,248	388,717
Capital Outlay	0	20,770	20,770
Debt Service:			
Principal Retirement	40,974	15,000	55,974
Interest and Fiscal Charges	996	11,549	12,545
<i>Total Expenditures</i>	8,758,897	1,248,174	10,007,071
<i>Excess of Revenues Under Expenditures</i>	(355,346)	46,992	(308,354)
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets	465	0	465
Transfers In	0	31,319	31,319
Transfers Out	(26,550)	(4,769)	(31,319)
<i>Total Financing Sources and (Uses)</i>	(26,085)	26,550	465
<i>Net Change in Fund Balances</i>	(381,431)	73,542	(307,889)
<i>Fund Balances Beginning of Year</i>	553,645	48,019	601,664
<i>Fund Balances End of Year</i>	\$ 172,214	\$ 121,561	\$ 293,775

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local 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, 2006*

Net Change in Fund Balances - Total Governmental Funds \$ (307,889)

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

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

Capital Asset Additions	\$ 11,035	
Current Year Depreciation	<u>(268,094)</u>	
Total		(257,059)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

(35,189)

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

Grants	(16,940)	
Delinquent Property Taxes	<u>38,983</u>	
Total		22,043

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

Capital Lease Principal	40,974	
Energy Conservation Note Principal	<u>15,000</u>	
Total		55,974

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

Compensated Absences		(67,183)
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The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service are allocated among the governmental activities.

484,741

Change in Net Assets of Governmental Activities \$ (104,562)

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local 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, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 3,298,554	\$ 3,588,093	\$ 3,588,093	\$ 0
Intergovernmental	4,367,233	4,431,317	4,431,317	0
Investment Income	38,000	45,902	45,902	0
Tuition and Fees	289,300	284,891	284,891	0
Contributions and Donations	5,000	9,249	9,249	0
Miscellaneous	10,700	8,270	8,270	0
<i>Total Revenues</i>	<u>8,008,787</u>	<u>8,367,722</u>	<u>8,367,722</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	4,474,508	4,409,977	4,409,589	388
Special	554,285	580,432	573,274	7,158
Vocational	330,827	325,887	325,381	506
Other	200,000	240,400	240,381	0
Support Services:				
Pupils	420,626	418,632	418,603	29
Instructional Staff	290,144	315,699	315,437	262
Board of Education	41,629	31,945	29,854	2,091
Administration	739,770	761,771	761,256	515
Fiscal	308,025	303,055	302,419	636
Operation and Maintenance of Plant	555,233	650,080	594,116	55,964
Pupil Transportation	600,637	721,865	682,824	39,041
Central	100	0	0	0
Operation of Non-Instructional Services:				
Community Services	1,400	1,350	989	361
Extracurricular Activities	209,795	207,580	207,458	122
<i>Total Expenditures</i>	<u>8,726,979</u>	<u>8,968,673</u>	<u>8,861,581</u>	<u>107,073</u>
<i>Excess of Revenues Under Expenditures</i>	(718,192)	(600,951)	(493,859)	107,092
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	2,000	516	516	0
Refund of Prior Year Expenditures	15,000	22,061	22,061	0
Advances In	122,917	122,917	122,917	0
Advances Out	(60,000)	(68,300)	(68,220)	80
Transfers Out	(26,550)	(26,550)	(26,550)	0
<i>Total Other Financing Sources (Uses)</i>	<u>53,367</u>	<u>50,644</u>	<u>50,724</u>	<u>80</u>
<i>Net Change in Fund Balance</i>	(664,825)	(550,307)	(443,135)	107,172
<i>Fund Balance Beginning of Year</i>	537,592	537,592	537,592	0
Prior Year Encumbrances Appropriated	127,233	127,233	127,233	0
<i>Fund Balance End of Year</i>	<u>\$ 0</u>	<u>\$ 114,518</u>	<u>\$ 221,690</u>	<u>\$ 107,172</u>

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2006

	<u>Governmental Activities - Internal Service</u>
Assets	
Cash and Cash Equivalents with Fiscal Agent	\$ 545,459
Liabilities	
Deferred Revenue	121,446
Claims Payable	<u>392,880</u>
<i>Total Liabilities</i>	<u>514,326</u>
Net Assets	
Unrestricted	<u><u>\$ 31,133</u></u>

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	Governmental Activities - Internal Service
Operating Revenues	
Charges for Services	\$ 1,713,560
Operating Expenses	
Purchased Services	614,461
Claims	621,002
<i>Total Operating Expenses</i>	1,235,463
<i>Operating Income</i>	478,097
Non-Operating Revenues	
Interest	6,644
<i>Change in Net Assets</i>	484,741
<i>Net Assets (Deficit) Beginning of Year</i>	(453,608)
<i>Net Assets End of Year</i>	\$ 31,133

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	Governmental Activities - Internal Service
<hr style="border-top: 3px double #000;"/>	
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received for Interfund Services	\$ 1,713,517
Cash Paid for Goods and Services	(614,461)
Cash Paid for Claims	(747,130)
	<hr/>
<i>Net Cash Provided By Operating Activities</i>	351,926
	<hr/>
Cash Flows From Investing Activities	
Interest on Investments	6,644
	<hr/>
<i>Net Increase in Cash and Cash Equivalents</i>	358,570
<i>Cash and Cash Equivalents Beginning of Year</i>	186,889
	<hr/>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 545,459</u>
	<hr/>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income	\$ 478,097
Adjustments:	
Decrease in Deferred Revenue	(43)
Increase in Claims Payable	(126,128)
	<hr/>
<i>Total Adjustments</i>	(126,171)
	<hr/>
<i>Net Cash Provided By Operating Activities</i>	<u>\$ 351,926</u>
	<hr/>

The accompanying notes are an integral part of the basic financial statements.

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

	Private Purpose Trust	
	Scholarship	Agency
Assets		
<i>Current Assets</i>		
Equity in Pooled Cash and Cash Equivalents	\$ 0	\$ 32,944
Cash and Cash Equivalents in Segregated Accounts	3,188	0
<i>Total Current Assets</i>	3,188	32,944
<i>Noncurrent Assets</i>		
Restricted Investment	5,000	0
<i>Total Assets</i>	\$ 8,188	\$ 32,944
Liabilities		
Accounts Payable	\$ 0	\$ 224
Due to Students	0	32,720
<i>Total Liabilities</i>	0	\$ 32,944
Net Assets		
Unrestricted	1,188	
Held in Trust for Scholarships	7,000	
<i>Total Net Assets</i>	\$ 8,188	

The accompanying notes are an integral part of the basic financial statements.

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

	Private Purpose Trust	
	Scholarship	
Additions		
Interest	\$	298
Deductions		
Scholarships Awarded		176
<i>Change in Net Assets</i>		122
<i>Net Assets Beginning of Year</i>		8,066
<i>Net Assets End of Year</i>	\$	8,188

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Hillsdale Local School District (the "School District") was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of October 1, 2005, was 1,072. The School District employs 80 certificated and 44 non-certificated employees.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Hillsdale Local School District, this includes general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to, or can otherwise access, the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provides financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District does not have any component units.

The School District is involved with Tri-County Computer Service Association (TCCSA) and Ashland County-West Holmes Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 18.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

A. *Basis of Presentation*

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

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid “doubling up” revenues and expenses.

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

Fund Financial Statements During the 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

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

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

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

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

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District's only proprietary fund is an internal service fund.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for a self-insurance program, which provides medical benefits to employees.

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenditures) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund activity.

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

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements for the proprietary and 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 revenue, and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 10). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

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

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

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

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

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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”.

During fiscal year 2006, investments were limited to STAROhio and a certificate of deposit.

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

STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on June 30, 2006.

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 2006 amounted to \$45,902, which includes \$25,064 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 considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

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

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund include unspent resources restricted for the purchase of buses.

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$3,000. 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 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	5-50 Years
Furniture and Equipment	5-20 Years
Vehicles	6-20 Years
Infrastructure	5-50 Years
Textbooks	20 Years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the 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 District's past experience of making termination payments.

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

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables and accrued liabilities from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Long-term notes and capital leases are recognized as a liability on the fund financial statements when due.

M. Net Assets

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

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

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting those definitions are reported as non-operating.

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

R. 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.

S. Budgetary Data

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, 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 object code within function level within the General Fund. For all other funds, the legal level of control was at the fund level. The treasurer has been given the authority to allocate Board appropriations to the function and object levels within each of these funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts 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 in effect when the final appropriations were passed.

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

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Changes in Accounting Principles

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

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

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements. At June 30, 2006, none of the School District's net assets were restricted by enabling legislation.

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

The implementation of these GASB statements did not have an effect on the financial statements of the School District.

NOTE 3: FUND DEFICITS

GAAP basis fund balances at June 30, 2006 included the following individual fund deficits:

Other Governmental Funds:	<u>Deficit</u>
Title VI	\$ 942
Food Service	84,925
Agricultural Education, 5 th Quarter	3,762

The deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 4: 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, is presented for the general fund on the budgetary basis to provide 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) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

<u>Net Change in Fund Balance</u>	
	<u>General</u>
GAAP Basis	\$ (381,431)
Net adjustment for revenue accruals	(13,718)
Advance in	122,917
Advance out	(68,220)
Net adjustment for expenditure accruals	9,682
Adjustment for encumbrances	(112,365)
Budget Basis	\$ (443,135)

NOTE 5: DEPOSITS AND INVESTMENTS

State statues classify monies held by the School District into three categories.

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

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

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

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that 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 that the term of the agreement must not exceed thirty days;
4. Bonds and any other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2006, the School District and public depositories complied with the provisions of these statutes.

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District’s deposits was \$326,605, which includes petty cash in the amount of \$125. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures,” as of June 30, 2006, \$286,525 of the District’s bank balance of \$491,841 was exposed to custodial risk as discussed above, while \$205,316 was covered by Federal Deposit Insurance Corporation.

Funds Held by Fiscal Agent

The School District participates in the Tri-County Educational Service Center Employees Insurance Consortium for employee benefits. The amount held at fiscal year end for the Employee Benefit Self-Insurance Fund was \$545,459. All benefit deposits are made to the consortium’s depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Investments

As of June 30, 2006, the School District had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
STAROhio	\$ 238,494	\$ 238,494	\$ 0	\$ 0	\$ 0

Interest Rate Risk As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk Standard & Poor’s has assigned STAROhio an AAA rating.

Concentration of Credit Risk The School District places no limit on the amount the School District may invest in any one issuer. 100% of the School District’s investments are in STAROhio.

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 6: RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (rent, student fees and tuition), accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of Federal funds. All are expected to be received within one year. A summary of the principal items of intergovernmental receivables follows:

	Amounts
Entry Year Mentoring Grant	\$ 800
Title I Grant	14,426
Agricultural Education, 5 th Quarter Grant	3,600
Title II-D Technology	659
CAFS Reimbursement	141
 Total All Funds	 \$ 19,626

NOTE 7: CAPITAL ASSETS

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

	Balance 6/30/2005	Additions	Deletions	Reclassified	Balance 6/30/2006
Governmental Activities					
<i>Capital Assets, not being depreciated:</i>					
Land	\$ 227,735	\$ 0	\$ 0	\$ 0	\$ 227,735
<i>Capital Assets, being depreciated:</i>					
Building and Improvements	2,882,313	0	0	43,305	2,925,618
Furniture and Equipment	1,816,969	11,035	(39,370)	59,000	1,847,634
Vehicles	714,718	0	0	0	714,718
Infrastructure	117,525	0	0	(102,305)	15,220
Textbooks	532,988	0	0	0	532,988
<i>Total Capital Assets, being depreciated</i>	6,064,513	11,035	(39,370)	0	6,036,178
<i>Less Accumulated Depreciation:</i>					
Building and Improvements	(437,280)	(128,586)	0	0	(565,866)
Furniture and Equipment	(1,280,909)	(126,463)	4,181	0	(1,403,191)
Vehicles	(502,089)	(11,569)	0	0	(513,658)
Infrastructure	(1,528)	(666)	0	0	(2,194)
Textbooks	(457,883)	(810)	0	0	(458,693)
<i>Total Accumulated Depreciation</i>	(2,679,689)	(268,094) *	4,181	0	(2,943,602)
<i>Total Capital Assets being depreciated, net</i>	3,384,824	(257,059)	(35,189)	0	3,092,576
<i>Governmental Activities Capital Assets, Net</i>	\$ 3,612,559	\$ (257,059)	\$ (35,189)	\$ 0	\$ 3,320,311

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 7: CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:			
Regular	\$	115,802	
Special		2,336	
Vocational		4,204	
Support Services:			
Pupils		914	
Instructional Staff		35,811	
Administration		5,485	
Fiscal		624	
Operation and Maintenance of Plant		3,786	
Pupil Transportation		87,776	
Operation of Non-Instructional Services:			
Food Service Operations		1,147	
Extracurricular Activities		10,209	
		<u>10,209</u>	
Total Depreciation Expense	\$	<u>268,094</u>	

NOTE 8: LONG-TERM OBLIGATIONS

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

	Principal Outstanding 06/30/05	Additions	Deductions	Principal Outstanding 06/30/06	Due in One Year
2000 Energy Conservation Notes: \$287,000 5.125% interest rate, matures December 1, 2013	\$ 232,850	\$ 0	\$ (15,000)	\$ 217,850	\$ 17,500
Capital lease payable	41,147	0	(40,974)	173	173
Compensated absences	824,816	298,771	(231,588)	891,999	9,211
	<u>\$ 1,098,813</u>	<u>\$ 298,771</u>	<u>\$ (287,562)</u>	<u>\$ 1,110,022</u>	<u>\$ 26,884</u>

Energy conservation notes are direct obligations of the School District for which its full faith, credit and resources are pledged. Proceeds from the notes were used for energy conservation improvements to school buildings.

The energy conservation notes will be paid from the bond retirement debt service fund. Capital lease payments will be paid from the general fund. Compensated absences will be paid from the fund from which the employees' salaries are paid.

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 8: LONG-TERM OBLIGATIONS (Continued)

The School District's overall debt margin was \$23,763,082 with an unvoted debt margin of \$266,455 at June 30, 2006. Principal and interest requirements to retire general obligation debt outstanding at June 30, 2006, are as follows:

<u>Fiscal Year Ending</u>	<u>Energy Conservation Notes</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2007	\$ 17,500	\$ 10,716	\$ 28,216
2008	20,000	9,755	29,755
2009	22,500	8,666	31,166
2010	25,000	7,450	32,450
2011	27,500	6,104	33,604
2012-2014	<u>105,350</u>	<u>8,629</u>	<u>113,979</u>
Total	<u>\$ 217,850</u>	<u>\$ 51,320</u>	<u>\$ 269,170</u>

NOTE 9: CAPITALIZED LEASES – LESSEE DISCLOSURE

In prior years, the School District entered into lease agreements for a postage machine. The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service in the basic financial statements for the government funds.

These assets have been capitalized in the governmental capital assets in the amount of \$3,350, the present value of the minimum lease payments at the inception of each lease. A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease.

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006:

	<u>Postage Machine</u>
Year ending June 30, 2007	\$ 177
Less amount representing interest	<u>4</u>
Present value of minimum lease payments	<u>\$ 173</u>

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 10: PROPERTY TAXES

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

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

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2003, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Ashland and Wayne Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and 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 revenue.

The amount available as an advance at June 30, 2006 was \$669,931 in the general fund, \$16,685 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$650,526 in the general fund and \$9,504 in the permanent improvement capital projects fund.

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 10: PROPERTY TAXES (Continued)

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

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

	2005 Second-Half Collections		2006 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 101,589,840	78%	\$ 109,950,710	80%
Commercial/Industrial/ Public Utility/Minerals	4,406,160	3%	5,409,080	4%
Tangible Personal Property	23,567,089	18%	21,531,918	16%
Total Assessed Value	<u>\$ 129,563,089</u>	<u>100%</u>	<u>\$ 136,891,708</u>	<u>100%</u>
Tax rate per \$1000 of assessed value	<u>\$ 49.40</u>		<u>\$ 49.40</u>	

NOTE 11: PENSION PLANS

A. *School Employees Retirement System*

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under forms and publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal year 2006, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$138,048, \$139,824 and \$140,486, respectively; 51 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 11: PENSION PLANS (Continued)

B. State Teachers Retirement System

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

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

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

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

The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$604,584, \$571,152 and \$556,896, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

C. Social Security System

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

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 12: POSTEMPLOYMENT BENEFITS

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$43,185 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$27,400. For the District, the amount to fund health care benefits, including surcharge, during the 2006 fiscal year equaled \$51,533.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Net expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient in the long-term to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 13: INTERFUND TRANSACTIONS

A. *Interfund Transfers*

During fiscal year 2006, the general fund transferred \$26,550 to the bond retirement debt service fund to pay the energy conservation note principal and interest payments. The Title II-A, Improving Teacher Quality Special Revenue Fund transferred \$4,769 to Title V, Innovative Programs Special Revenue Fund due to a budget revision.

B. *Interfund Balances*

Interfund balances at June 30, 2006, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 68,220	\$ 0
Other Governmental:		
Food Service	0	64,620
Agricultural Education, 5 th Quarter	<u>0</u>	<u>3,600</u>
Totals	<u>\$ 68,220</u>	<u>\$ 68,220</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

NOTE 14: DEFERRED REVENUE

	<u>Statement of Net Assets</u>	<u>Balance Sheet</u>
Property taxes receivable	\$ 3,164,065	\$ 3,409,137
Prepaid insurance premiums paid into self-insurance fund	121,446	0
Intergovernmental Receivable	<u>0</u>	<u>659</u>
	<u>\$ 3,285,511</u>	<u>\$ 3,409,796</u>

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 15: STATUTORY RESERVES

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

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

	Textbooks	Capital Acquisition	Totals
Set-Aside Reserve Balance as of June 30, 2005	\$ 0	\$ 0	\$ 0
Current Year Set-Aside Requirement	160,054	160,054	320,108
Balance Carried over from Prior Year	(522,100)	0	(522,100)
Current Year Offsets	0	(109,894)	(109,894)
Qualifying Disbursements	(145,010)	(60,697)	(205,707)
Totals	\$ (507,056)	\$ (10,537)	\$ (517,593)
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ (507,056)	\$ 0	
Set-Aside Reserve Balance as of June 30, 2006	\$ 0	\$ 0	

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement in future years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years.

NOTE 16: CONTRACTUAL COMMITMENTS

As of June 30, 2006, the School District had contractual commitments for the purchase of a new bus.

	Contractual Commitment	Expended	Balance June 30, 2006
Mansfield Truck Sales, Inc.	\$ 60,250	\$ 0	\$ 60,250

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 17: RISK MANAGEMENT

A. General Insurance

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with a deductible of \$1,000 per incident on property and \$1,000 per incident on equipment. The School District's vehicle insurance policy limit with umbrella coverage is a total of \$6,000,000 with a \$1,000 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally, the School District carries a \$5,000,000 blanket umbrella policy. The limits of this coverage are \$6,000,000 per occurrence and \$8,000,000 in aggregate. Settlement claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Fidelity Bond

The Board President, Superintendent and Treasurer hold position bonds through the OSBA with limits of \$20,000, \$20,000 and \$100,000 respectively. All other school employees are covered under the School District's employee honesty coverage with a \$500,000 limit and a \$1,000 deductible, which is separate from the property policy.

C. Workers' Compensation

The School District pays the State Workers' Compensation System, an insurance purchasing pool, a premium based on a rate per \$100 of salaries. The District is a member of the Ohio Association of School Business Offices (OASBO) Group Rating System, an insurance purchasing pool. This rate is calculated based on accident history and administrative costs. The group presently consists of over 196 school districts.

D. Employee Health Insurance

Medical/surgical insurance, prescription, vision and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool, consisting of fifty members, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf.

The claims liability of \$392,880 reported in the internal service fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in fiscal years 2006 and 2005 were:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2005	\$ 364,814	\$ 1,191,586	\$ 1,037,392	\$ 519,008
2006	519,008	621,002	747,130	392,880

Hillsdale Local School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS

A. Tri-County Computer Service Association

The Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 20 school districts, created as a regional council of governments pursuant to state statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Education Services Center, which serves as fiscal agent, located in Wooster, Ohio. During the year ended June 30, 2006, the School District paid approximately \$66,311.

B. Ashland County-West Holmes Career Center

The Ashland County-West Holmes Career Center (Career Center), a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of State of Ohio. The continued existence of the Career Center is not dependent on the School District's continued participation and no measurable equity interest exists.

NOTE 19: CONTINGENCIES

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and 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, 2006.

B. Litigation

Prior to June 30, 2006, Columbia Gas Transmission Corporation (CGT) filed an appeal with the State of Ohio Department of Taxation Public Utility Tax Division seeking a reduction in their public utility tangible personal property tax rate assessment from 88 percent to 25 percent. CGT won at the Ohio Board of Tax Appeals, and the State has appealed to the Ohio Supreme Court. The School District's maximum liability is approximately \$295,148, which represents refunds of taxes paid for tax years 2001 through 2005. However, the School District is currently unable to predict the ultimate effect of this litigation on its financial position or results of operations.

The School District is not party to any other claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

October 25, 2006

To the Board of Education
Hillsdale Local School District
Jeromesville, OH 44840

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsdale Local School District (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to management in a separate letter dated October 25, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated October 25, 2006.

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

Rea & Associates, Inc.

October 25, 2006

To the Board of Education
Hillsdale Local School District
Jeromesville, OH 44840

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

Compliance

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

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Hea & Associates, Inc.

HILLSDALE LOCAL SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION Passed through Ohio Department of Education						
Title I, Part A						
Elementary and Secondary Education Act		C1S1-2005	\$ 12,761		\$ 16,762	
		C1S1-2006	94,264		90,875	
Total Title I	84.010		107,025		107,637	
Title VI-B						
IDEA-B, Special Education		6BSF-2006	213,856		213,856	
ACCESS Grant, Special Education		6BSD-2006	50,000		50,000	
Total Title VI-B	84.027		263,856		263,856	
Title V Innovative Programs	84.298	C2S1-2006	3,150		8,373	
Safe, Drug-Free Schools & Communities Act Grant	84.186	DRS1-2006	4,862		4,488	
Title II D Technology	84.318	TJS1-2006	1,277		1,492	
Title II A - Improving Teacher Quality		TRS1-2005	0		175	
		TRS1-2006	48,539		40,661	
Total Title II A	84.367		48,539		40,836	
Total U.S. Department of Education			428,709		426,682	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through Ohio Department of Mental Retardation and Development Disabilities						
Medical Assistance Program - Community Alternative Funding System (CAFS)	93.778		1,677		1,677	
Total U.S. Department of Health and Human Services			1,677		1,677	
U.S. DEPARTMENT OF AGRICULTURE Passed through Ohio Department of Education						
Food Distribution Program	10.550	FY 2006	0	17,720	0	\$ 17,720
Nutrition Cluster: National School Lunch Program	10.555	LLP4-2006	105,136	0	105,136	0
Total U.S. Department of Agriculture			105,136	17,720	105,136	17,720
Total Expenditures of Federal Awards			\$ 535,522	\$ 17,720	\$ 533,495	\$ 17,720

HILLSALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2006

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B: NUTRITION CLUSTER

Reimbursement monies are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

Food Distribution Program nonmonetary assistance is not part of the Nutrition Cluster; however, it is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2006, the School District had no significant food commodities inventory.

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS
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A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Title I Title VI-B	CFDA # 84.010 # 84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

NONE	
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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NONE	
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Mary Taylor, CPA
Auditor of State

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 22, 2007