



Mary Taylor, CPA  
Auditor of State



**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

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# Mary Taylor, CPA

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## INDEPENDENT ACCOUNTANTS' REPORT

Harrison Hills City School District  
Harrison County  
P.O. Box 356  
Hopedale, Ohio 43976

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, Ohio (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, Ohio, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying federal awards expenditure schedule is presented for purposes of 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. We subjected the information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

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

**Mary Taylor, CPA**  
Auditor of State

June 12, 2009

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)

The discussion and analysis of the Harrison Hills City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2008 are as follows:

- In total, net assets of governmental activities decreased \$584,985 which represents a 5.51% decrease from 2007.
- General revenues accounted for \$15,405,107 in revenue or 79.19% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$4,047,390 or 20.81% of total revenues of \$19,452,497.
- The District had \$20,037,482 in expenses related to governmental activities; \$4,047,390 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,405,107 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$15,937,658 in revenues and \$17,164,341 in expenditures and other financing uses. During fiscal 2008, the general fund's fund balance decreased \$1,225,532 from \$4,611,579 to \$3,386,047.
- The permanent improvement fund had \$460,994 in revenues and other financing sources and \$408,893 in expenditures. During fiscal year 2008, the permanent improvement fund's fund balance increased \$52,101.

**Using these Basic Financial Statements**

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

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

**Reporting the 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 District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?"

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)

The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and permanent improvement fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental benefits self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***



**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-50 of this report.

**The District as a Whole**

The District restated net assets as detailed in Note 3B. The table below provides a summary of the District's net assets at June 30, 2008 and June 30, 2007.

	<b>Net Assets</b>	
	Governmental Activities <u>2008</u>	(Restated) Governmental Activities <u>2007</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 14,347,643	\$ 14,451,193
Capital assets, net	<u>3,462,793</u>	<u>3,397,960</u>
Total assets	<u>17,810,436</u>	<u>17,849,153</u>
<b><u>Liabilities</u></b>		
Current liabilities	6,709,476	6,043,390
Long-term liabilities	<u>1,070,921</u>	<u>1,190,739</u>
Total liabilities	<u>7,780,397</u>	<u>7,234,129</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	3,407,633	3,295,296
Restricted	3,600,869	3,262,501
Unrestricted	<u>3,021,537</u>	<u>4,057,227</u>
Total net assets	<u>\$ 10,030,039</u>	<u>\$ 10,615,024</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$10,030,039. Of this total, \$3,021,537 is unrestricted in use.

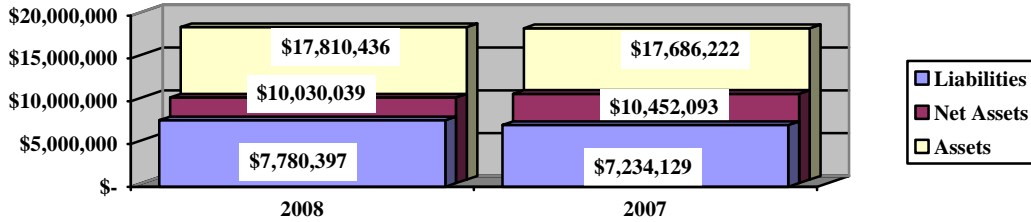
At year-end, capital assets represented 19.44% of total assets. Capital assets include land, land improvements, infrastructure, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2008, were \$3,407,633. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$3,600,869, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,021,537 may be used to meet the District's ongoing obligations to the students and creditors.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2008 and 2007.

	<b>Change in Net Assets</b>	
	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 606,708	\$ 652,950
Operating grants and contributions	3,418,612	3,295,586
Capital grants and contributions	22,070	37,543
General revenues:		
Property taxes	4,516,468	5,008,524
Grants and entitlements	10,498,622	10,238,395
Investment earnings	356,338	470,488
Other	<u>33,679</u>	<u>45,529</u>
 Total revenues	 <u>19,452,497</u>	 <u>19,749,015</u>

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)

	<b>Change in Net Assets</b>	
	Governmental	(Restated) Governmental
	Activities	Activities
	<u>2008</u>	<u>2007</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 8,936,158	\$ 8,741,254
Special	2,096,237	2,178,980
Vocational	334,061	341,583
Adult	-	500
Other	109,107	130,216
Support services:		
Pupil	923,954	944,088
Instructional staff	494,043	496,361
Board of education	737,530	177,446
Administration	1,434,343	1,474,970
Fiscal	502,426	505,602
Business	-	41,189
Operations and maintenance	1,341,802	1,174,248
Pupil transportation	1,504,301	1,198,819
Central	335,587	302,291
Operations of non-instructional services:		
Food service operations	917,762	895,110
Other non-instructional services	25,635	46,907
Extracurricular activities	341,046	325,966
Interest and fiscal charges	<u>3,490</u>	<u>5,868</u>
Total expenses	<u>20,037,482</u>	<u>18,981,398</u>
Change in net assets	(584,985)	767,617
Net assets at beginning of year	<u>10,615,024</u>	<u>9,847,407</u>
Net assets at end of year	<u>\$ 10,030,039</u>	<u>\$ 10,615,024</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$584,985. Total governmental expenses of \$20,037,482 were offset by program revenues of \$4,047,390 and general revenues of \$15,405,107. Program revenues supported 20.20% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and unrestricted grants and entitlements. These revenue sources represent 77.19% of total governmental revenue.

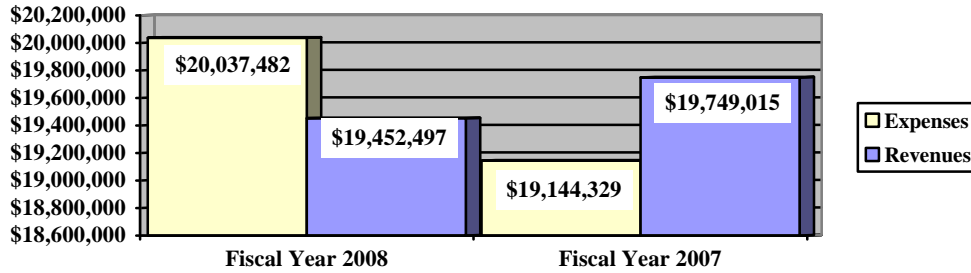
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,475,563 or 56.73% of total governmental expenses for fiscal year 2008.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2008 and 2007.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 grants and entitlements.

**Governmental Activities**

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 8,936,158	\$ 8,072,561	\$ 8,741,254	\$ 8,038,290
Special	2,096,237	622,791	2,178,980	752,981
Vocational	334,061	177,592	341,583	189,139
Adult	-	-	500	500
Other	109,107	55,767	130,216	44,897
Support services:				
Pupil	923,954	666,307	944,088	679,560
Instructional staff	494,043	376,168	496,361	344,274
Board of education	737,530	737,530	177,446	177,446
Administration	1,434,343	1,350,704	1,474,970	1,385,060
Fiscal	502,426	502,426	505,602	505,602
Business	-	-	41,189	41,189
Operations and maintenance	1,341,802	1,341,802	1,174,248	1,174,159
Pupil transportation	1,504,301	1,430,322	1,361,750	1,274,399
Central	335,587	335,125	302,291	297,973
Operations of non-instructional services:				
Food service operations	917,762	127,723	895,110	67,612
Other non-instructional services	25,635	25,635	46,907	46,907
Extracurricular activities	341,046	164,149	325,966	132,394
Interest and fiscal charges	<u>3,490</u>	<u>3,490</u>	<u>5,868</u>	<u>5,868</u>
<b>Total expenses</b>	<u><u>\$ 20,037,482</u></u>	<u><u>\$ 15,990,092</u></u>	<u><u>\$ 19,144,329</u></u>	<u><u>\$ 15,158,250</u></u>

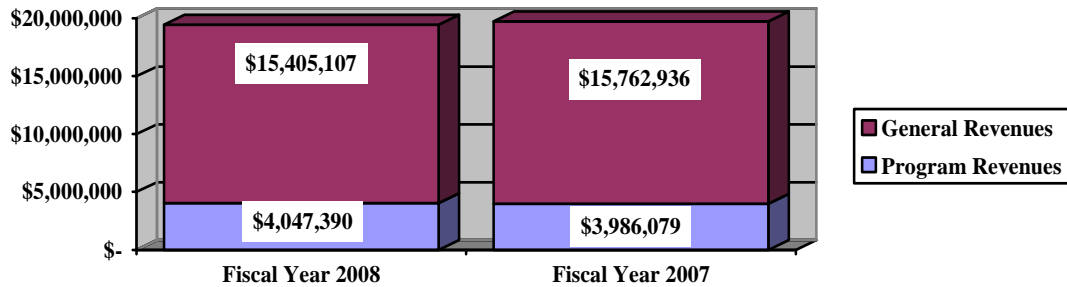
**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)

The dependence upon tax and other general revenues for governmental activities is apparent, 77.81% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.80%.

The graph below presents the District's governmental activities revenue for fiscal years 2008 and 2007.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$4,821,960, which is lower than last year's total of \$5,991,763. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and June 30, 2007

	Fund Balance June 30, 2008	Fund Balance June 30, 2007	Increase (Decrease)	Percentage Change
General	\$ 3,386,047	\$ 4,611,579	\$ (1,225,532)	(26.58) %
Permanent Improvement	1,111,870	1,059,769	52,101	4.92 %
Other Governmental	<u>324,043</u>	<u>320,415</u>	<u>3,628</u>	1.13 %
Total	<u>\$ 4,821,960</u>	<u>\$ 5,991,763</u>	<u>\$ (1,169,803)</u>	(19.52) %

An analysis of the general fund revenues and expenditures is provided in the section below. The increase in the fund balances of the other governmental funds is primarily due to a fund balance increase of \$163,639 in the poverty aid fund.

**General Fund**

The District's general fund balance decreased \$1,225,532. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 4,131,591	\$ 4,595,680	\$ (464,089)	(10.10) %
Earnings on investments	262,645	354,775	(92,130)	(25.97) %
Extracurricular	11,664	28,904	(17,240)	(59.65) %
Intergovernmental	11,346,554	11,107,775	238,779	2.15 %
Other revenues	<u>185,204</u>	<u>197,674</u>	<u>(12,470)</u>	(6.31) %
Total	<u>\$ 15,937,658</u>	<u>\$ 16,284,808</u>	<u>\$ (347,150)</u>	(2.13) %
<b><u>Expenditures</u></b>				
Instruction	\$ 9,973,442	\$ 9,824,637	\$ 148,805	1.51 %
Support services	6,676,114	5,778,281	897,833	15.54 %
Non-instructional services	46,870	42,504	4,366	18.17 %
Extracurricular activities	182,226	137,318	44,908	32.70 %
Facilities acquisition and construction	169,987	449,368	(279,381)	(62.17) %
Debt service	<u>50,994</u>	<u>52,674</u>	<u>(1,680)</u>	(3.19) %
Total	<u>\$ 17,099,633</u>	<u>\$ 16,284,782</u>	<u>\$ 814,851</u>	5.00 %

Overall revenues in the general fund decreased \$347,150 or 2.13%. The most significant increase was in the area of intergovernmental revenues. Intergovernmental revenues increased \$238,779 or 2.15% due to the way open enrollment was posted. In prior years, open enrollment revenues and expenditures were netted under intergovernmental receipts. Beginning in fiscal year 2008, open enrollment revenues were posted as intergovernmental receipts with and open enrollment expenditures were posted as the corresponding expenditure line item. The decrease in investments is due in part to the declining interest rate and funds that were available to invest. Tax revenues decreased 10.10%. Taxes decreased mainly due in part to the higher than usual delinquencies. In addition, due to the implementation of the eliminating tangible personal property taxes over time through 2010, tax collections have reduced. Extracurricular and other revenues will vary from year to year, largely in part due to fees and bill backs for services. Fiscal year 2008 saw a reduced amount in both areas.

Expenditures of the general fund increased in all areas except facilities acquisition and construction and debt service. A contributing factor in the increases was due to the rise in the cost of health insurance. In addition, under the area of instruction, open enrollment out is now posted as an expense and not netted under revenue. Support services have also increased due to the cost of tuition for special education services and instruction. Non-instructional services include utilities and there was an increased cost associated with these services. Extracurricular activities includes the pay increases for coaches as well as the payment of an athletic trainer. Facilities acquisition and construction will vary from year due to monies that are available for repairs and upgrades of the buildings. Debt service pertains to the capital lease payments.

***Permanent Improvement Fund***

The permanent improvement fund had \$460,994 in revenues and other financing sources and \$408,893 in expenditures. During fiscal year 2008, the permanent improvement fund's fund balance increased \$52,101 from \$1,059,769 to \$1,111,870.

***General Fund Budgeting Highlights***

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

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)

During the course of fiscal year 2008, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$14,542,571 and final budgeted revenues and other financing sources were \$16,666,370. Actual revenues and other financing sources for fiscal year 2008 were \$16,670,089. This represents a \$3,719 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$16,442,296, which were increased to \$19,657,813 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$18,797,317, which were \$860,496 less than the final budget appropriations.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2008, the District had \$3,462,793 invested in land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows June 30, 2008 balances compared to June 30, 2007:

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

	Governmental Activities	
	2008	2007
Land	\$ 15,067	\$ 15,067
Construction in progress	108,842	-
Land improvements	75,886	72,610
Building and improvements	2,212,569	2,284,133
Furniture and equipment	466,068	469,521
Vehicles	584,361	556,629
Total	\$ 3,462,793	\$ 3,397,960

The overall increase in capital assets of \$64,833 is due to capital outlays of \$407,787 exceeding depreciation expense of \$308,076 and the disposal of \$70,916 in capital assets exceeding their associated accumulated depreciation by \$36,038 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

*Debt Administration*

The District had \$55,160 in a capital lease liability at June 30, 2008, of this amount; \$41,084 is due within one year. The District had no other debt outstanding at June 30, 2008. See Note 9 to the basic financial statements for additional information on the District's capital leases.

At June 30, 2008, the District's overall legal debt margin was \$16,803,100 with an unvoted debt margin of \$186,701.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (Unaudited)**

**Current Financial Related Activities**

As the Board of Education continues to accomplish and set new goals, stated in the District's Continuous Improvement Plan (CIP), meeting the needs of the students continues to be their priority. The CIP has been instrumental in helping the District to plan financially in order to improve academics, maintain buildings and grounds, and other areas related to the District's operations. In order to achieve these goals, it has been important that a high standard of accountability be continued and prudent fiscal management maintained.

The District was successful in ending the 2008 fiscal year in the black. However, due to expenditures continuing to exceed revenue, a reduction in staff was implemented for the 2009 fiscal year. Based on the reduction in staff and a higher number of retirements during the 2008 fiscal year, this will enable the District to end the 2009 and the 2010 fiscal years in the black. This is all based on historical and current trend. However, beyond that it is questionable. Therefore, the Board of Education and Administration will continue to closely monitor its revenues and expenditures. Additional cuts are a possibility if the revenue for the District does not improve. This will be done in order to help bring expenditures more in line with the revenue. With the biennial budget, the governor is requesting substantial cuts. Even though the foundation program is to remain untouched, other areas will surely impact the revenue received from the state. In addition, if additional unfunded state mandates are required, this would impact the District negatively.

School funding is still a major concern for all school districts. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system. They deemed this system to be neither "adequate" nor "equitable." The Court still has not accepted any state developed school-funding plan. Therefore, the District is unable to determine what effect, if any, that a state approved plan will have on the District.

The Ohio School Facilities Commission (OSFC) sent a team into the District to evaluate the District's school buildings in 2002. It was determined that all the buildings needed replaced. The District began working with the OSFC and was approved, as an exceptional needs District. The District would have been required to provide approximately 35% while the state would provide approximately 65% of the funds needed to replace the District's buildings. However, the District was not successful on its attempt on the ballot, November 2003, to get a bond levy passed for the District's share. We once again began working with the OSFC and developed a plan that combined three programs for funding. This time an income tax was placed on the ballot in March of 2004 to fund the District's portion of the project. However, it was not successful. The focus of the Board of Education had to switch to getting the permanent improvement levy renewed. Since we were successful in renewing the permanent improvement levy during fiscal year 2005, the board and administration once again began working with the OSFC. The District was approved in 2006 to enter into the building project under the Classroom Facilities Assistance Program (CFAP). This time the state will fund 75% while the District will need to pass a bond issue to fund 25% of the project. However, after three attempts on the ballot, the District was unsuccessful. Therefore, the focus will be to make necessary improvements to enhance the safety and learning environment of its students and staff. Funds will be utilized from the District's permanent improvement fund and the general capital improvement set aside fund.

The Board of Education and Administration will continue to carefully and prudently manage the District's resources in order to continue to meet the growing needs of its students. At the same time, the financial condition of the District will be monitored closely.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Roxane Harding, Treasurer, Harrison Hills City School District, P.O. Box 356 - Normal Street, Hopedale, Ohio 43976-0356.



**BASIC  
FINANCIAL STATEMENTS**

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2008

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 5,229,284
Cash with fiscal agent . . . . .	2,215,949
Investments . . . . .	879,455
Receivables:	
Taxes . . . . .	5,402,433
Accounts . . . . .	1,821
Intergovernmental . . . . .	353,144
Accrued interest . . . . .	3,470
Prepayments . . . . .	109,789
Materials and supplies inventory . . . . .	152,298
Capital assets:	
Land . . . . .	15,067
Construction in progress . . . . .	108,842
Depreciable capital assets, net . . . . .	3,338,884
Capital assets, net. . . . .	<u>3,462,793</u>
 Total assets. . . . .	 <u>17,810,436</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	161,073
Accrued wages and benefits . . . . .	1,442,321
Pension obligation payable. . . . .	359,038
Intergovernmental payable . . . . .	105,693
Unearned revenue . . . . .	4,130,788
Claims payable . . . . .	510,563
Long-term liabilities:	
Due within one year. . . . .	262,150
Due within more than one year . . . . .	808,771
 Total liabilities . . . . .	 <u>7,780,397</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	3,407,633
Restricted for:	
Capital projects . . . . .	1,183,801
Endowment:	
Expendable . . . . .	97,852
Nonexpendable . . . . .	289,934
Federally funded programs . . . . .	1,961
State funded programs . . . . .	184,755
Other purposes . . . . .	1,842,566
Unrestricted. . . . .	<u>3,021,537</u>
 Total net assets . . . . .	 <u>\$ 10,030,039</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 8,936,158	\$ 167,098	\$ 696,499	\$ -	\$ (8,072,561)
Special . . . . .	2,096,237	189	1,473,257	-	(622,791)
Vocational . . . . .	334,061	-	156,469	-	(177,592)
Other . . . . .	109,107	-	53,340	-	(55,767)
Support services:					
Pupil . . . . .	923,954	-	257,647	-	(666,307)
Instructional staff . . . . .	494,043	385	117,490	-	(376,168)
Board of education . . . . .	737,530	-	-	-	(737,530)
Administration . . . . .	1,434,343	-	83,639	-	(1,350,704)
Fiscal . . . . .	502,426	-	-	-	(502,426)
Operations and maintenance . . . . .	1,341,802	-	-	-	(1,341,802)
Pupil transportation . . . . .	1,504,301	-	51,909	22,070	(1,430,322)
Central . . . . .	335,587	-	462	-	(335,125)
Operation of non-instructional services:					
Food service operations . . . . .	917,762	284,621	505,418	-	(127,723)
Other non-instructional services . . . . .	25,635	-	-	-	(25,635)
Extracurricular activities . . . . .	341,046	154,415	22,482	-	(164,149)
Interest and fiscal charges . . . . .	3,490	-	-	-	(3,490)
Total governmental activities . . . . .	\$ 20,037,482	\$ 606,708	\$ 3,418,612	\$ 22,070	(15,990,092)
<b>General Revenues:</b>					
Property taxes levied for:					
					4,147,956
					368,512
					10,498,622
					356,338
					33,679
					15,405,107
					(584,985)
					10,615,024
					\$ 10,030,039

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<b>General</b>	<b>Permanent Improvement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 2,042,516	\$ 1,117,597	\$ 780,043	\$ 3,940,156
Investments . . . . .	783,953	-	95,502	879,455
Receivables:				
Taxes . . . . .	4,981,613	420,820	-	5,402,433
Accounts . . . . .	1,796	-	25	1,821
Intergovernmental . . . . .	175,407	-	177,737	353,144
Accrued interest . . . . .	2,813	-	657	3,470
Interfund loans . . . . .	267,759	-	-	267,759
Due from other funds . . . . .	2,944	-	-	2,944
Prepayments . . . . .	108,558	-	1,231	109,789
Materials and supplies inventory . . . . .	116,315	-	35,983	152,298
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	1,289,128	-	-	1,289,128
<b>Total assets . . . . .</b>	<b><u>\$ 9,772,802</u></b>	<b><u>\$ 1,538,417</u></b>	<b><u>\$ 1,091,178</u></b>	<b><u>\$ 12,402,397</u></b>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 122,244	\$ 5,730	\$ 33,099	\$ 161,073
Accrued wages and benefits . . . . .	1,197,121	-	245,200	1,442,321
Compensated absences payable . . . . .	120,554	-	-	120,554
Pension obligation payable . . . . .	295,077	-	63,961	359,038
Intergovernmental payable . . . . .	88,576	-	17,117	105,693
Interfund loan payable . . . . .	-	-	267,759	267,759
Due to other funds . . . . .	-	-	2,944	2,944
Deferred revenue . . . . .	781,392	71,820	137,055	990,267
Unearned revenue . . . . .	3,781,791	348,997	-	4,130,788
<b>Total liabilities . . . . .</b>	<b><u>6,386,755</u></b>	<b><u>426,547</u></b>	<b><u>767,135</u></b>	<b><u>7,580,437</u></b>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	537,922	158,327	120,862	817,111
Reserved for materials and supplies inventory . . . . .	116,315	-	35,983	152,298
Reserved for prepayments . . . . .	108,558	-	1,231	109,789
Reserved for property tax unavailable for appropriation . . . . .	482,158	3	-	482,161
Reserved for BWC refunds . . . . .	73,694	-	-	73,694
Reserved for capital acquisition . . . . .	563,632	-	-	563,632
Reserved for textbooks . . . . .	629,732	-	-	629,732
Reserved for school bus purchases . . . . .	22,070	-	-	22,070
Reserved for unclaimed monies . . . . .	7,691	-	-	7,691
Reserved for endowment . . . . .	-	-	289,934	289,934
Unreserved:				
Designation for budget stabilization . . . . .	78,109	-	-	78,109
Undesignated (deficit), reported in:				
General fund . . . . .	766,166	-	-	766,166
Special revenue funds . . . . .	-	-	(221,930)	(221,930)
Capital projects funds . . . . .	-	953,540	111	953,651
Permanent fund . . . . .	-	-	97,852	97,852
<b>Total fund balances . . . . .</b>	<b><u>3,386,047</u></b>	<b><u>1,111,870</u></b>	<b><u>324,043</u></b>	<b><u>4,821,960</u></b>
<b>Total liabilities and fund balances . . . . .</b>	<b><u>\$ 9,772,802</u></b>	<b><u>\$ 1,538,417</u></b>	<b><u>\$ 1,091,178</u></b>	<b><u>\$ 12,402,397</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2008

<b>Total governmental fund balances</b>		\$	4,821,960
<i>Amounts reported for governmental activities on 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.			3,462,793
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Taxes recievable	\$	789,484	
Interest		525	
Intergovernmental revenue		200,258	
Total			990,267
An 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 governmental activities in the statement of net assets.			1,705,386
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(895,207)	
Capital lease obligation		(55,160)	
Total			(950,367)
<b>Net assets of governmental activities</b>		\$	10,030,039

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES OF FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 4,131,591	\$ 364,241	\$ -	\$ 4,495,832
Tuition. . . . .	133,618	-	-	133,618
Charges for services. . . . .	-	-	283,655	283,655
Earnings on investments. . . . .	262,645	18,019	6,380	287,044
Extracurricular. . . . .	11,664	-	143,338	155,002
Classroom materials and fees . . . . .	17,907	-	15,560	33,467
Other local revenues. . . . .	33,679	-	25,551	59,230
Intergovernmental - state . . . . .	11,346,554	40,767	730,259	12,117,580
Intergovernmental - federal. . . . .	-	-	1,708,527	1,708,527
Total revenues. . . . .	<u>15,937,658</u>	<u>423,027</u>	<u>2,913,270</u>	<u>19,273,955</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	8,169,685	33,729	577,036	8,780,450
Special. . . . .	1,392,787	1,198	763,970	2,157,955
Vocational. . . . .	332,744	-	-	332,744
Other . . . . .	78,226	-	30,881	109,107
Support services:				
Pupil. . . . .	666,031	615	262,730	929,376
Instructional staff . . . . .	374,010	-	125,789	499,799
Board of education . . . . .	737,530	-	-	737,530
Administration. . . . .	1,384,385	929	87,610	1,472,924
Fiscal . . . . .	489,899	18,106	-	508,005
Operations and maintenance. . . . .	1,303,935	33,237	-	1,337,172
Pupil transportation . . . . .	1,461,803	144,271	28,986	1,635,060
Central. . . . .	258,521	53,389	550	312,460
Operation of non-instructional services:				
Food service operations . . . . .	-	-	938,932	938,932
Other non-instructional services . . . . .	46,870	1,512	-	48,382
Extracurricular activities. . . . .	182,226	-	183,845	366,071
Facilities acquisition and construction . . . . .	169,987	121,907	-	291,894
Debt service:				
Principal retirement . . . . .	47,504	-	-	47,504
Interest and fiscal charges . . . . .	3,490	-	-	3,490
Total expenditures . . . . .	<u>17,099,633</u>	<u>408,893</u>	<u>3,000,329</u>	<u>20,508,855</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(1,161,975)</u>	<u>14,134</u>	<u>(87,059)</u>	<u>(1,234,900)</u>
<b>Other financing sources (uses):</b>				
Transfers in. . . . .	-	-	64,708	64,708
Transfers (out). . . . .	(64,708)	-	-	(64,708)
Sale of assets. . . . .	-	37,967	-	37,967
Total other financing sources (uses). . . . .	<u>(64,708)</u>	<u>37,967</u>	<u>64,708</u>	<u>37,967</u>
Net change in fund balances . . . . .	(1,226,683)	52,101	(22,351)	(1,196,933)
<b>Fund balances at beginning of year . . . . .</b>	4,611,579	1,059,769	320,415	5,991,763
<b>Increase in reserve for inventory . . . . .</b>	1,151	-	25,979	27,130
<b>Fund balances at end of year. . . . .</b>	<u>\$ 3,386,047</u>	<u>\$ 1,111,870</u>	<u>\$ 324,043</u>	<u>\$ 4,821,960</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**Net change in fund balances - total governmental funds** \$ (1,196,933)

*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 capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$	407,787	
Current year depreciation		<u>(308,076)</u>	
<b>Total</b>			<b>99,711</b>

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (34,878)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. 27,130

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

Taxes		20,636	
Interest		(2,395)	
Intergovernmental		<u>87,646</u>	
<b>Total</b>			<b>105,887</b>

Repayments of capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 47,504

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 165,833

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 the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 200,761

**Change in net assets of governmental activities** \$ (584,985)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES OF  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,581,709	\$ 4,105,664	\$ 4,105,697	\$ 33
Tuition . . . . .	116,565	133,228	133,618	390
Earnings on investments . . . . .	253,799	290,800	290,929	129
Extracurricular . . . . .	8,503	9,700	9,747	47
Classroom materials and fees . . . . .	15,617	17,800	17,902	102
Other local revenues . . . . .	20,278	22,875	23,245	370
Intergovernmental - State . . . . .	9,802,263	11,236,109	11,236,294	185
Total revenues . . . . .	<u>13,798,734</u>	<u>15,816,176</u>	<u>15,817,432</u>	<u>1,256</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	7,235,696	8,449,827	8,272,062	177,765
Special . . . . .	1,238,927	1,458,273	1,416,378	41,895
Vocational . . . . .	300,747	371,821	343,823	27,998
Other . . . . .	67,953	96,534	77,686	18,848
Support services:				
Pupil . . . . .	586,575	737,557	670,590	66,967
Instructional staff . . . . .	338,703	402,839	387,215	15,624
Board of education . . . . .	682,330	815,503	780,060	35,443
Administration . . . . .	1,247,818	1,510,040	1,426,542	83,498
Fiscal . . . . .	471,678	543,362	539,236	4,126
Operations and maintenance . . . . .	1,237,052	1,758,688	1,414,234	344,454
Pupil transportation . . . . .	1,337,636	1,532,374	1,529,225	3,149
Central . . . . .	236,588	293,444	270,474	22,970
Operation of non-instructional services . . . . .	41,358	47,444	47,282	162
Extracurricular activities . . . . .	143,759	170,300	164,349	5,951
Facilities acquisition and construction . . . . .	412,998	483,797	472,151	11,646
Total expenditures . . . . .	<u>15,579,818</u>	<u>18,671,803</u>	<u>17,811,307</u>	<u>860,496</u>
Deficiency of revenues under expenditures . . . . .	<u>(1,781,084)</u>	<u>(2,855,627)</u>	<u>(1,993,875)</u>	<u>861,752</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	515,875	591,345	591,345	-
Transfers (out) . . . . .	(573,882)	(656,079)	(656,079)	-
Advances in . . . . .	218,877	250,897	250,898	1
Advances (out) . . . . .	(288,596)	(329,931)	(329,931)	-
Refund of prior year receipt . . . . .	5,684	4,054	6,516	2,462
Sale of assets . . . . .	3,401	3,898	3,898	-
Total other financing sources (uses) . . . . .	<u>(118,641)</u>	<u>(135,816)</u>	<u>(133,353)</u>	<u>2,463</u>
Net change in fund balance . . . . .	(1,899,725)	(2,991,443)	(2,127,228)	864,215
<b>Fund balance at beginning of year . . . . .</b>	5,051,188	5,051,188	5,051,188	-
<b>Prior year encumbrances appropriated . . . . .</b>	539,834	539,834	539,834	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 3,691,297</u>	<u>\$ 2,599,579</u>	<u>\$ 3,463,794</u>	<u>\$ 864,215</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2008

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Current assets:	
Cash with fiscal agent . . . . .	\$ 2,215,949
Total assets . . . . .	2,215,949
<b>Liabilities:</b>	
Claims payable . . . . .	510,563
Total liabilities . . . . .	510,563
<b>Net assets:</b>	
Unrestricted. . . . .	1,705,386
Total net assets . . . . .	\$ 1,705,386

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 3,492,935
Total operating revenues . . . . .	<u>3,492,935</u>
<b>Operating expenses:</b>	
Fringe benefits . . . . .	186,194
Claims. . . . .	<u>3,178,635</u>
Total operating expenses . . . . .	<u>3,364,829</u>
Operating income. . . . .	<u>128,106</u>
<b>Nonoperating revenues:</b>	
Interest revenue. . . . .	<u>72,655</u>
Total nonoperating revenues . . . . .	<u>72,655</u>
Change in net assets. . . . .	200,761
<b>Net assets at beginning of year . . . . .</b>	<u>1,504,625</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ 1,705,386</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 3,492,935
Cash payments for fringe benefits. . . . .	(186,194)
Cash payments for claims. . . . .	<u>(3,002,334)</u>
Net cash provided by operating activities . . . . .	<u>304,407</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>72,655</u>
Net cash provided by investing activities . . . . .	<u>72,655</u>
Net increase in cash and cash equivalents . . . . .	377,062
<b>Cash and cash equivalents at beginning of year. . .</b>	<u>1,838,887</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 2,215,949</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income. . . . .	\$ 128,106
Changes in assets and liabilities: Increase in claims payable . . . . .	<u>176,301</u>
Net cash provided by operating activities . . . . .	<u><u>\$ 304,407</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2008

		<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$	62,946
Receivables:		
Accounts . . . . .		574
Total assets . . . . .	\$	63,520
<b>Liabilities:</b>		
Accounts payable. . . . .	\$	3,230
Intergovernmental payable . . . . .		1,327
Due to students . . . . .		58,963
Total liabilities . . . . .	\$	63,520

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Harrison Hills City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by State statute and/or federal guidelines.

The District was established in 1971 through the consolidation of existing land areas and school districts. The District serves an area approximately 386 square miles. It is located primarily in Harrison County, however small portions of the District are located in Carroll County, Tuscarawas County, Belmont County and Jefferson County. The District is the 295<sup>th</sup> largest in the State of Ohio (among 896 public and community school districts) in terms of enrollment. It is staffed by 108 non-certified employees, 164 certified employees and 11 administrators who provide services to 1,857 students and other community members. The District currently operates 8 instructional buildings and 1 administrative building.

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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 proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts and acts in the capacity of fiscal agent for OME-RESA.

Belmont Harrison Joint Vocational School

The Belmont Harrison Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the nine participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Belmont Harrison Joint Vocational School, Treasurer's Office, at 110 Fox/Shannon Place, St. Clairsville, Ohio 43950.

*INSURANCE PURCHASING POOL*

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrolment fee to the Plan to cover the costs of administering the program.

**B. Fund Accounting**

The 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 following are the District's major governmental funds:

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

*Permanent improvement fund* - The permanent improvement capital projects fund is used to account for all transactions related to acquiring, constructing, or improving capital facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUND*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

*Internal service fund* - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical and dental benefits to employees.

*FIDUCIARY FUND*

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

**C. Basis of Presentation and Measurement Focus**

*Government-wide Financial Statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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 this fund are included on the statement of fund net assets. The statement of 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 District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2008, but which were levied to finance fiscal year 2009 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue on the fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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

**E. Budgets**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2008 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2008.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the fund level for all other funds, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2008; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2008, investments were limited to federal agency securities, negotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2008. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$262,645, which includes \$47,486 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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 District maintains a capitalization threshold of \$5,000. 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>Governmental Activities Estimated Lives</u>
Infrastructure	75 years
Buildings and improvements	20 - 75 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**I. Interfund Balances**

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

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2008, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, any employee with a continuing contract is considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**K. 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, accrued liabilities and long-term obligations payable 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, compensated absences and claims and judgments 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 year. Capital leases are recognized as a liability on the fund financial statements when due.

**L. Fund Balance Reserves / Designations**

The District records reserves for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of materials and supplies, prepayments, tax revenue unavailable for appropriation, Bureau of Workers' Compensation (BWC) refunds, capital acquisition, textbooks, school bus purchases, unclaimed monies and endowment. The reserve for property tax advance unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriations under State statute. The amount set-aside by the Board of Education for budget stabilization is reported as a designation of fund balance in the general fund.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

**M. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist of monies restricted by State statute for budget stabilization, BWC refunds, textbooks, school bus purchases, capital acquisition and unclaimed monies.

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

**O. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**P. Estimates**

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

**Q. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a reserve for BWC refunds, textbook reserve, school bus purchases, and capital acquisition reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

**R. 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 and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 14) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Restatement of Net Assets**

Prior period adjustment is required to restate capital assets reported at June 30, 2008. The adjustment of the District's capital assets had the following effect on net assets as previously reported by the governmental activities:

	Governmental Activities
Net assets, June 30, 2007	\$ 10,452,093
Adjustment for capital assets	162,931
Restated net assets, June 30, 2007	\$ 10,615,024

See Note 8 for the effect of the change on capital assets balances as previously reported by the District at June 30, 2007.

**C. Deficit Fund Balances**

Fund balances at June 30, 2008 included the following individual fund deficits:

Nonmajor funds	Deficit
Food service	\$ 202,001
District managed activities	51,355
EMIS	21
Title VI-B	76,400
Title I	39,468
Preschool	1,624
Improving teacher quality	21,243

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash with Fiscal Agent**

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2008 was \$2,215,949.

**B. Deposits with Financial Institutions**

At June 30, 2008, the carrying amount of all District deposits was \$547,137. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$961,981 of the District's bank balance of \$1,224,877 was exposed to custodial risk as discussed below, while \$262,896 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% 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 a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**C. Investments**

As of June 30, 2008, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
STAR Ohio	\$ 4,745,093	\$ 4,745,093	\$ -	\$ -	\$ -
Negotiable CD's	779,667	-	289,516	99,292	390,859
FHLMC	99,788	-	-	-	99,788
Total	<u>\$ 5,624,548</u>	<u>\$ 4,745,093</u>	<u>\$ 289,516</u>	<u>\$ 99,292</u>	<u>\$ 490,647</u>

The weighted average maturity of investments is .22 years.

**HARRISON HILLS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Interest Rate Risk:* To the extent possible, the District will attempt to match its investment with anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to maturity. Unless matched to a specific obligation or debt of the District, the District will not invest directly in securities maturing more than two years from the date of settlement.

*Credit Risk:* The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 4,745,093	84.36
Negotiable CD's	779,667	13.87
FHLMC	<u>99,788</u>	<u>1.77</u>
Total	<u>\$ 5,624,548</u>	<u>100.00</u>

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 547,137
Investments	5,624,548
Cash with fiscal agent	<u>2,215,949</u>
Total	<u>\$ 8,387,634</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 8,324,688
Agency fund	<u>62,946</u>
Total	<u>\$ 8,387,634</u>

**HARRISON HILLS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances for the year ended June 30, 2008, consisted of the following due to/from other funds, as reported on the fund financial statements:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 2,944	\$ -
Nonmajor governmental funds:		
Endowment	-	281
District managed student activity	-	700
Title I	-	1,963
	-	1,963
Total	\$ 2,944	\$ 2,944

The primary purpose of due to/from other funds is to represent amounts owed between funds for goods or service provided. Due to/from other funds are eliminated between governmental funds for reporting in the statement of net assets. All amounts are to be repaid within one year.

- B. Interfund balances at June 30, 2008 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 267,759

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, 2008 are reported on the statement of net assets.

- C. Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	
General fund	\$ 64,708

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

**HARRISON HILLS CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Harrison, Carroll, Tuscarawas, Belmont and Jefferson Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County Auditors by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date 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, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 6 - PROPERTY TAXES - (Continued)**

The amount available as an advance at June 30, 2008 was \$482,158 in the general fund and \$3 in the permanent improvement fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2007 was \$456,263 in the general fund.

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 171,605,640	83.90	\$ 171,506,660	86.64
Public utility personal	16,709,220	8.17	17,074,970	8.63
Tangible personal property	<u>16,220,090</u>	<u>7.93</u>	<u>9,379,470</u>	<u>4.73</u>
Total	<u>\$ 204,534,950</u>	<u>100.00</u>	<u>\$ 197,961,100</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$37.75		\$37.75	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2008 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. 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. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Taxes	\$ 5,402,433
Accounts	1,821
Intergovernmental	353,144
Accrued interest	<u>3,470</u>
Total	<u>\$ 5,760,868</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

**HARRISON HILLS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 8 - CAPITAL ASSETS**

Capital assets of the governmental activities have been restated due to a prior period adjustment. The adjustment of the District's capital assets had the following effect on the governmental activities capital asset balances as previously reported:

	Balance		Restated
	June 30, 2007	Adjustment	Balance
	<u>June 30, 2007</u>	<u>Adjustment</u>	<u>June 30, 2007</u>
<i>Capital assets, not being depreciated:</i>			
Land	\$ 15,067	\$ -	\$ 15,067
Total capital assets, not being depreciated	<u>15,067</u>	<u>-</u>	<u>15,067</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	373,963	-	373,963
Buildings and improvements	7,296,036	-	7,296,036
Infrastructure	27,874	-	27,874
Furniture and equipment	1,679,304	-	1,679,304
Vehicles	1,364,190	207,855	1,572,045
Total capital assets, being depreciated	<u>10,741,367</u>	<u>207,855</u>	<u>10,949,222</u>
<i>Less: accumulated depreciation:</i>			
Land improvements	(301,353)	-	(301,353)
Buildings and improvements	(5,011,903)	-	(5,011,903)
Infrastructure	(27,874)	-	(27,874)
Furniture and equipment	(1,209,783)	-	(1,209,783)
Vehicles	(970,492)	(44,924)	(1,015,416)
Total accumulated depreciation	<u>(7,521,405)</u>	<u>(44,924)</u>	<u>(7,566,329)</u>
Total capital assets, being depreciated	<u>3,219,962</u>	<u>162,931</u>	<u>3,382,893</u>
Governmental activities capital assets, net	<u>\$ 3,235,029</u>	<u>\$ 162,931</u>	<u>\$ 3,397,960</u>

**HARRISON HILLS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Restated Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2008</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 15,067	\$ 108,842	\$ -	123,909
Total capital assets, not being depreciated	<u>15,067</u>	<u>108,842</u>	<u>-</u>	<u>123,909</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	373,963	12,200	-	386,163
Buildings and improvements	7,296,036	26,463	-	7,322,499
Infrastructure	27,874	-	-	27,874
Furniture and equipment	1,679,304	86,973	(12,020)	1,754,257
Vehicles	<u>1,572,045</u>	<u>173,309</u>	<u>(58,896)</u>	<u>1,686,458</u>
Total capital assets, being depreciated	<u>10,949,222</u>	<u>298,945</u>	<u>(70,916)</u>	<u>11,177,251</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(301,353)	(8,924)	-	(310,277)
Buildings and improvements	(5,011,903)	(98,027)	-	(5,109,930)
Infrastructure	(27,874)	-	-	(27,874)
Furniture and equipment	(1,209,783)	(90,426)	12,020	(1,288,189)
Vehicles	<u>(1,015,416)</u>	<u>(110,699)</u>	<u>24,018</u>	<u>(1,102,097)</u>
Total accumulated depreciation	<u>(7,566,329)</u>	<u>(308,076)</u>	<u>36,038</u>	<u>(7,838,367)</u>
Governmental activities capital assets, net	<u>\$ 3,397,960</u>	<u>\$ 99,711</u>	<u>\$ (34,878)</u>	<u>\$ 3,462,793</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 113,614
Special	18,551
Vocational	3,304
<u>Support services:</u>	
Pupil	1,120
Instructional staff	2,194
Administration	9,230
Fiscal	620
Operations and maintenance	6,876
Pupil transportation	113,912
Central	24,891
Food service operations	<u>13,764</u>
Total depreciation expense	<u>\$ 308,076</u>



**HARRISON HILLS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

In prior years, the District entered into capitalized leases for phone equipment and a modular classroom. These lease agreements meet the criteria of capital lease as defined by FASB Statement 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 have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of buildings and improvements and furniture and equipment have been capitalized in the amount of \$311,958. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 was \$162,216, leaving a current book value of \$149,742. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2008 fiscal year totaled \$47,504 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 42,594
2010	<u>14,198</u>
Total minimum lease payments	56,792
Less: Amount representing interest	<u>(1,632)</u>
Total	<u>\$ 55,160</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2008, the following activity occurred in governmental activities long-term obligations:

	<u>Balance Outstanding 06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/08</u>	<u>Amounts Due in One Year</u>
<b>Governmental activities:</b>					
Capital lease obligation	\$ 102,664	\$ -	\$ (47,504)	\$ 55,160	\$ 41,084
Compensated absences	<u>1,088,075</u>	<u>177,313</u>	<u>(249,627)</u>	<u>1,015,761</u>	<u>221,066</u>
Total long-term obligations, governmental activities	<u>\$ 1,190,739</u>	<u>\$ 428,096</u>	<u>\$ (297,131)</u>	<u>\$ 1,070,921</u>	<u>\$ 262,150</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid, which are primarily the general fund, food service fund (a nonmajor governmental fund) and Title I fund (a nonmajor governmental fund).

**HARRISON HILLS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2008, are a voted debt margin of \$16,803,100 and an unvoted debt margin of \$186,701.

**NOTE 11 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees, office staff, administrative staff, and certified employees have the following sick leave and severance policies:

<u>Employee Status</u>	<u>Maximum Allowable Sick Leave Balance (Days)</u>	<u>Paid at 1/4 of Unused Sick Leave Balance</u>	<u>Paid at 1/8 of Unused Sick Leave Balance</u>	<u>Total Allowable Maximum Severance (Days)</u>
Classified	279	First 133 Days	Any Balance Over 133 Days	52
Office Staff	335	First 142 Days	Any Balance Over 142 Days	60
Administrative	335	First 160 Days	Any Balance Over 160 Days	62
Certified	335	First 144 Days	Any Balance Over 144 Days	60

**B. Life Insurance**

The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

**HARRISON HILLS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has contracted with Ohio School Plan via Harcum-Hyre Insurance Agency for property and inland marine coverage; fleet insurance; and professional liability coverage. Coverage is provided as follows:

<u>Description</u>	<u>Amount</u>
Building and Contents - replacement cost (\$1,000 deductible)	\$45,702,816
Inland Marine Coverage (\$1,000 deductible)	468,000
Boiler and Machinery (\$1,000 deductible)	45,702,816
Crime Insurance	50,000
Musical Instruments	314,300

Coverage provided by Indiana Insurance is as follows:

General Liability	
Per occurrence	1,000,000
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000

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

**B. Workers' Compensation**

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the State based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control and actuarial services to the GRP.

**C. Employee Group Medical, Dental, Vision and Life Insurance**

Medical/surgical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 49 school districts within the OME-RESA consortium, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf. The claims liability of \$510,563 reported in the internal service fund at June 30, 2008, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

**HARRISON HILLS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 12 - RISK MANAGEMENT - (Continued)**

Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2008	\$ 334,262	\$ 3,178,635	\$ (3,002,334)	\$ 510,563
2007	307,969	2,834,687	(2,808,394)	334,262

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$192,354, \$201,394 and \$185,152, respectively; 48.40 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**B. State Teachers Retirement System of Ohio**

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 13 - PENSION PLANS - (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$954,483, \$953,396 and \$948,936, respectively; 83.99 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$9,434 made by the District and \$14,050 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$127,480, \$104,696 and \$91,593, respectively; 48.40 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$13,860, \$13,695 and \$14,737, respectively; 48.40 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**B. State Teachers Retirement System of Ohio**

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

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$73,422, \$73,338 and \$72,995, respectively; 83.99 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While 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 and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and
- (d) Investments are reported as fair value (GAAP basis) rather than cost (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

<b>Net Change in Fund Balance</b>	<u>General fund</u>
Budget basis	\$ (2,127,228)
Net adjustment for revenue accruals	120,226
Net adjustment for expenditure accruals	55,824
Net adjustment for other sources/uses	68,645
Adjustment for encumbrances	<u>655,850</u>
GAAP basis	<u><u>\$ (1,226,683)</u></u>

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**NOTE 17 - STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2008, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>BWC Refunds</u>
Set-aside balance as of June 30, 2007	\$ 601,187	\$ 901,656	\$ 73,694
Current year set-aside requirement	262,959	262,959	-
Qualifying disbursements	<u>(234,414)</u>	<u>(600,983)</u>	<u>-</u>
Total	<u>\$ 629,732</u>	<u>\$ 563,632</u>	<u>\$ 73,694</u>
Balance carried forward to FY 2009	<u>\$ 629,732</u>	<u>\$ 563,632</u>	<u>\$ 73,694</u>

The District also had \$22,070 restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2008 follows:

Amount restricted for textbooks	\$ 629,732
Amount restricted for capital maintenance	563,632
Amount restricted for BWC refunds	73,694
Amount restricted for school bus purchases	<u>22,070</u>
Total restricted assets	<u>\$ 1,289,128</u>
Amount designated for budget stabilization	<u>\$ 78,109</u>



HARRISON HILL CITY SCHOOL DISTRICT  
HARRISON COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. Department of Agriculture</b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	03-PU	10.550		\$20,316		\$20,316
Child Nutrition Cluster:						
National School Breakfast Program	05-PU	10.553	\$171,771		\$171,771	
National School Lunch Program	LLP-4	10.555	402,008		402,008	
Total Child Nutrition Cluster			573,779		573,779	
Total U.S. Department of Agriculture			573,779	20,316	573,779	20,316
<b>U.S. Department of Education</b>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2008	84.010	489,273		484,753	
	C1-S1-2007		55,187		53,919	
Total ESEA Title I			544,460		538,672	
Special Education Cluster						
Special Education Part B-IDEA	6BSF-2008	84.027	519,892		526,178	
	6BSF-2007		62,567		64,135	
Total Special Education Grant			582,459		590,313	
Preschool Special Education	PS-2008	84.173	24,899		23,309	
	PS-2007				(2,043)	
Total Preschool Special Education			24,899		21,266	
Total Special Education Cluster			607,358		611,579	
Safe & Drug Free School Grant Title IV-A	DR-S1-2008	84.186	15,305		15,030	
	DR-S1-2007				1,804	
			15,305		16,834	
Goals 2000 Grant	G-2007	84.276			2,219	
Dwight Eisenhower Grant	DEG-2007	84.281			1,306	
Innovative Educational Program Strategies Title V	C2-S1-2008	84.298	2,936		2,936	
	C2-S1-2007				367	
Total Innovative Educational Program Strategies			2,936		3,303	
Education Technology Grant Title II-D	TJ-S1-2008	84.318	5,855		4,563	
	TJ-S1-2007				1,143	
Total Education Technology Grant			5,855		5,706	
Title II A Improving Teacher Quality Program	TRS1-2008	84.367	127,635		127,483	
	TRS1-2007		28,165		17,078	
Total Title II A Program			155,800		144,561	
Total US Department of Education			1,331,714		1,324,180	
<b>Total Federal Awards</b>			<b>\$1,905,493</b>	<b>\$20,316</b>	<b>\$1,897,959</b>	<b>\$20,316</b>

The notes to the federal awards expenditures schedule are an integral part of this schedule.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Mary Taylor, CPA

Auditor of State

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

Harrison Hills City School District  
Harrison County  
P.O. Box 356  
Hopedale, Ohio 43976

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2008-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe finding number 2008-001 is also a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated June 12, 2009.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated June 12, 2009.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

June 12, 2009



# Mary Taylor, CPA

## Auditor of State

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

Harrison Hills City School District  
Harrison County  
P.O. Box 356  
Hopedale, OH 43976

To the Board of Education:

#### Compliance

We have audited the compliance of Harrison Hills City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Harrison Hills City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2008.

In a separate letter to the District's management dated June 12, 2009, we reported a matter related to federal noncompliance not requiring inclusion in this report.

#### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated June 12, 2009.

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



**Mary Taylor, CPA**  
Auditor of State

June 12, 2009

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2008**

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

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

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

**FINDING NUMBER 2008-001**

**Significant Deficiency/Material Weakness**

Sound accounting practices require maintaining a capital asset accounting system that incorporates sufficient information to enable the District to prepare financial statements in accordance with governmental accounting standards. The District's capital asset policy states, in part, that the District shall conduct a complete inventory every five years, by physical count, of all District owned assets and supplies. All assets purchased with a cost of \$5,000 or more with an estimated useful life of five years or more is to be tagged and made part of the capital asset inventory. A computer generated listing of all capital assets is to be maintained by the treasurer's office.

The District’s formal management controls are not working effectively to track and report capital assets. A complete and accurate listing of capital assets is necessary for the preparation of fairly stated financial statements. The District utilized the computerized capital asset inventory system; however, the listing was not maintained to provide consistently accurate capital asset information.

The capital asset inventory listing presented for audit had numerous errors, including the listing of some assets that were deleted in prior years, incorrect accumulated depreciation, depreciation expense, asset useful life, and inaccurate acquisition date and asset classifications. The following adjustments were made to the District’s financial statements and accounting records to accurately report capital assets and the related depreciation.

<b>Capital Asset Class</b>	<b>Balance Increase/(Decrease)</b>	<b>Accumulated Depreciation Increase/(Decrease)</b>
Construction in Progress	\$ 108,842	
Land and Improvements	12,200	\$ 508
Buildings and Improvements	26,643	551
Equipment and Furniture	58,882	5,259
Vehicles	(508,545)	(78,072)
<b>Total</b>	<b>\$ (302,158)</b>	<b>\$ (71,753)</b>

The District should review the information that has been entered in to the computerized inventory system for accuracy. Depreciation expenses should be recalculated, and the various errors in useful life, acquisition dates and classifications should be corrected. In addition, the District should ensure asset additions and deletions are reported in the proper period.

A properly designed capital asset reporting system would ensure District assets are accurately reported and would provide the District with documentation for insurance claims and would help to protect assets from misappropriation or misuse.

**Officials’ Response:**

We did not receive a response from officials to this finding.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None



**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 SECTION .315 (b)  
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2007-001	The District did not post the amounts of estimated resources as certified by the budget commission to the budgetary accounting system.	No	Repeated in the Management Letter.
2007-002	The capital asset accounting system was not complete or accurate.	No	Repeated as Finding Number 2008-001.





**Mary Taylor, CPA**  
Auditor of State

**HARRISON HILLS CITY SCHOOL DISTRICT**

**HARRISON 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  
JULY 14, 2009**