



Dave Yost • Auditor of State

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY
TABLE OF CONTENTS**

| TITLE | PAGE |
|---|------|
| Independent Accountants' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets as of June 30, 2011 | 11 |
| Statement of Activities – For the Fiscal Year Ended June 30, 2011 | 12 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds..... | 13 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 14 |
| Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds..... | 15 |
| Reconciliation of the Change in Fund Balance of Governmental Funds to the Statement of Activities | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund..... | 17 |
| Statement of Revenues, Expenses and Changes in Net Assets – Internal Service Fund..... | 18 |
| Statement of Cash Flows – Internal Service Fund | 19 |
| Statement of Fiduciary Net Assets – Fiduciary Fund | 20 |
| Statement of Changes in Fiduciary Net Assets – Fiduciary Fund | 21 |
| Notes to the Basic Financial Statements | 23 |
| Schedule of Federal Awards Receipts and Expenditures..... | 57 |
| Notes to Schedule of Federal Awards Receipts and Expenditures | 58 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 59 |
| Independent Accountants' Report on Compliance with requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133 | 61 |
| Schedule of Findings..... | 65 |
| Schedule of Prior Audit Findings..... | 69 |
| Corrective Action Plan..... | 71 |
| Independent Accountants' Report on Applying Agreed Upon Procedures..... | 73 |

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

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 Hillsboro City School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2011, 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 Hillsboro City School District, Highland County, Ohio, as of June 30, 2011, 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 September 20, 2012, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the 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. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

September 20, 2012

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The discussion and analysis of Hillsboro City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

- The assets of the Hillsboro City School District exceeded its liabilities at June 30, 2011 by \$56,097,786. Of this amount, \$2,616,483 may be used to meet the School District's ongoing financial obligations.
- The School District's net assets decreased \$367,546.
- Governmental activities general revenues accounted for \$21,927,720 or 78 percent of total revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$6,225,942 or 22 percent of total governmental revenues of \$28,153,662.
- The School District had \$28,521,208 in expenses related to governmental activities; only \$6,225,942 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest. General revenues (primarily grants, entitlements, income taxes and property taxes) of \$21,927,720 were used to provide for these programs along with unrestricted net assets from prior fiscal years.

Using the Basic Financial Statements

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

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

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2011?” The Statement of Net Assets and the Statement of Activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

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

Reporting the School District’s Most Significant Funds

Fund Financial Statements

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

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

Proprietary Fund - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds. The Internal Service Fund was used to account for the dental benefits provided to employees until August 2009.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for fiscal years 2011 and 2010:

(Table 1)
Net Assets
Governmental Activities

| | 2011 | 2010 As Restated | Change in Net Assets |
|---|---------------------|---------------------|-------------------------|
| Assets: | | | |
| Current and Other Assets | \$17,733,183 | \$16,388,329 | \$1,344,854 |
| Capital Assets, Net | 59,984,693 | 61,833,413 | (1,848,720) |
| Total Assets | <u>77,717,876</u> | <u>78,221,742</u> | <u>(503,866)</u> |
| Liabilities: | | | |
| Other Liabilities | 8,830,953 | 8,935,027 | (104,074) |
| Long-Term Liabilities | 12,789,137 | 12,821,383 | (32,246) |
| Total Liabilities | <u>21,620,090</u> | <u>21,756,410</u> | <u>(136,320)</u> |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 48,531,647 | 49,988,413 | (1,456,766) |
| Restricted | 4,949,656 | 4,148,162 | 801,494 |
| Unrestricted | 2,616,483 | 2,328,757 | 287,726 |
| Total Net Assets | <u>\$56,097,786</u> | <u>\$56,465,332</u> | <u>(\$367,546)</u> |

Capital assets decreased \$1,848,720, due primarily to depreciation exceeding additions. This also resulted in a decrease in invested in capital assets, net of related debt.

Restricted net assets increased \$801,494. Unrestricted net assets increased \$287,726 due to revenues exceeding expenses.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 2 shows the changes in net assets for fiscal years 2011 and 2010.

(Table 2)
Changes in Net Assets
Governmental Activities

| | 2010 | | Change |
|--|---------------------|---------------------|--------------------|
| | 2011 | As Restated | |
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for Services and Sales | \$1,828,489 | \$1,624,385 | \$204,104 |
| Operating Grants, Contributions and Interest | 4,097,453 | 4,282,631 | (185,178) |
| Capital Grants and Contributions | 300,000 | 40,000 | 260,000 |
| Total Program Revenues | <u>6,225,942</u> | <u>5,947,016</u> | <u>278,926</u> |
| General Revenues: | | | |
| Property Taxes | 6,078,794 | 6,533,491 | (454,697) |
| Income Taxes | 2,277,640 | 2,243,920 | 33,720 |
| Grants and Entitlements not Restricted to Specific Programs | 12,816,823 | 12,381,279 | 435,544 |
| Gifts and Donations | 7,351 | 9,659 | (2,308) |
| Interest | 116,815 | 227,815 | (111,000) |
| Miscellaneous | 630,297 | 119,101 | 511,196 |
| Total General Revenues | <u>21,927,720</u> | <u>21,515,265</u> | <u>412,455</u> |
| Total Revenues | <u>\$28,153,662</u> | <u>\$27,462,281</u> | <u>\$691,381</u> |
| Program Expenses: | | | |
| Instruction | 16,312,019 | 16,009,175 | 302,844 |
| Support Services: | | | |
| Pupils and Instructional Staff | 3,358,633 | 3,319,220 | 39,413 |
| Board of Education, Administration, Fiscal and Business | 2,674,027 | 2,930,188 | (256,161) |
| Operations and Maintenance of Plant | 2,039,440 | 2,738,727 | (699,287) |
| Pupil Transportation | 1,702,263 | 1,864,812 | (162,549) |
| Central | 112,387 | 114,863 | (2,476) |
| Operation of Non-Instructional Services | 1,161,925 | 1,223,917 | (61,992) |
| Extracurricular Activities | 617,132 | 592,612 | 24,520 |
| Interest and Fiscal Charges | 543,382 | 569,602 | (26,220) |
| Total Expenses | <u>28,521,208</u> | <u>29,363,116</u> | <u>(841,908)</u> |
| Decrease in Net Assets | (367,546) | (1,900,835) | 1,533,289 |
| Net Assets at Beginning of Year | <u>56,465,332</u> | <u>58,366,167</u> | <u>(1,900,835)</u> |
| Net Assets at End of Year | <u>\$56,097,786</u> | <u>\$56,465,332</u> | <u>(\$367,546)</u> |

Governmental Activities

Property taxes decreased \$454,697 during fiscal year 2011, due to an extreme decline in the local economy and continuing record highs in unemployment.

Miscellaneous revenue increased \$511,196. This was due to refunds related to construction contracts.

Overall, program expenses decreased. This was mainly due to a decrease in operation and maintenance of plant as a result of expenses recognized for the demolition of the old high school and middle school buildings in fiscal year 2010.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The School District remains heavily reliant on State funding. Grants and entitlements made up 46 percent of revenues for governmental activities of the Hillsboro City School District for fiscal year 2011.

Instruction comprises 57 percent of governmental activities program expenses. Support services expenses make up 34 percent of governmental activities expenses.

The Statement of Activities shows the cost of program services and the charges for services and sales and grants, contributions and interest offsetting those services. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations.

(Table 3)
 Governmental Activities

| | Total Cost of Services 2011 | Total Cost of Services 2010 | Net Cost of Services 2011 | Net Cost of Services 2010 |
|---|-----------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| Instruction | \$16,312,019 | \$16,009,175 | \$12,695,636 | \$12,698,432 |
| Support Services | 9,886,750 | 10,967,810 | 8,633,154 | 9,872,993 |
| Operation of Non-Instructional Services | 1,161,925 | 1,223,917 | 2,977 | 17,737 |
| Extracurricular Activities | 617,132 | 592,612 | 420,117 | 257,336 |
| Interest and Fiscal Charges | 543,382 | 569,602 | 543,382 | 569,602 |
| Total Expenses | <u>\$28,521,208</u> | <u>\$29,363,116</u> | <u>\$22,295,266</u> | <u>\$23,416,100</u> |

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$28,097,026 and expenditures of \$26,379,612. The net change in fund balance for the fiscal year was most significant in the General Fund, an increase of \$727,462. This was due to revenues exceeding expenditures.

The Debt Service Fund saw an increase of \$140,288 during the fiscal year due to the refunding of the 2001 School Improvement Bonds.

General Fund - Budget Highlights

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

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

During the course of fiscal year 2011 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 16, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, the original budget basis revenue was \$21,555,798 with a final budget estimate of \$21,950,284. The increase of \$394,486 was primarily due to an increase in intergovernmental revenues offset by decreases in property and income taxes. Actual revenues were equal to final budget estimates.

Original budget basis appropriations were \$21,223,028 with final budget basis appropriations of \$20,506,853. The variance of \$716,175 was due to overall decreases in expenditures. The School District's actual expenditures were \$61,305 above final budget estimates due mainly to increases in regular instruction.

The School District's ending unobligated cash balance was \$61,305 below final budget estimates.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the School District had \$59,984,693 invested in land, construction in progress, buildings and improvements, furniture, fixtures and equipment, vehicles and textbooks. Table 4 shows fiscal year 2011 balances compared to fiscal year 2010:

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

| | 2011 | 2010 As Restated | Change |
|-----------------------------------|---------------------|---------------------|----------------------|
| Land | \$574,464 | \$574,464 | \$0 |
| Construction in Progress | 26,329 | 0 | 26,329 |
| Land Improvements | 1,635,859 | 1,778,098 | (142,239) |
| Buildings and Improvements | 55,147,274 | 56,552,977 | (1,405,703) |
| Furniture, Fixtures and Equipment | 1,869,329 | 2,201,193 | (331,864) |
| Vehicles | 699,019 | 629,426 | 69,593 |
| Textbooks | 32,419 | 97,255 | (64,836) |
| Totals | \$59,984,693 | \$61,833,413 | (\$1,848,720) |

Net capital assets decreased from the prior fiscal year due to depreciation.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

For more information on capital assets, refer to note 10 to the basic financial statements.

Debt

At June 30, 2011, the School District had \$10,817,640 in bonds outstanding, \$445,000 of which is due within one year. Table 5 summarizes bonds outstanding at fiscal year-end 2011 and 2010:

(Table 5)
 Outstanding Debt, at Fiscal Year-End

| | 2011 | 2010 |
|---|--------------|--------------|
| General Obligation Bonds: | | |
| School Improvement Bonds | \$4,880,000 | \$11,085,000 |
| School Improvement Refunding Bonds | 5,830,000 | 0 |
| Premium on Debt Issue | 242,947 | 0 |
| Deferred Gain on Refunding | (138,516) | 0 |
| Accretion on Capital Appreciation Bonds | 3,209 | 0 |
| Total | \$10,817,640 | \$11,085,000 |

For more information about debt, refer to note 17 to the basic financial statements

Contacting the School District's Financial Management

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

This page intentionally left blank.

Hillsboro City School District

Statement of Net Assets

June 30, 2011

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$9,747,868 |
| Materials and Supplies Inventory | 968 |
| Inventory Held for Resale | 4,178 |
| Accounts Receivable | 14,536 |
| Accrued Interest Receivable | 4,398 |
| Intergovernmental Receivable | 286,797 |
| Property Taxes Receivable | 6,577,886 |
| Income Taxes Receivable | 996,167 |
| Deferred Charges | 100,385 |
| Capital Assets: | |
| Land | 574,464 |
| Construction in Progress | 26,329 |
| Depreciable Capital Assets, Net | <u>59,383,900</u> |
| Total Assets | <u>77,717,876</u> |
| Liabilities: | |
| Accounts Payable | 90,706 |
| Accrued Wages and Benefits Payable | 1,856,088 |
| Intergovernmental Payable | 334,555 |
| Matured Compensated Absences Payable | 146,463 |
| Early Retirement Incentive Payable | 476,499 |
| Deferred Revenue | 5,900,707 |
| Accrued Interest Payable | 25,935 |
| Long-Term Liabilities: | |
| Due Within One Year | 582,420 |
| Due in More Than One Year | <u>12,206,717</u> |
| Total Liabilities | <u>21,620,090</u> |
| Net Assets: | |
| Invested in Capital Assets, Net of Related Debt | 48,531,647 |
| Restricted for: | |
| Set Asides | 75,952 |
| Debt Service | 1,519,023 |
| Capital Outlay | 1,793,576 |
| Classroom Facilities | 1,140,060 |
| Other Purposes | 415,945 |
| Library Materials and Services: | |
| Expendable | 100 |
| Nonexpendable | 5,000 |
| Unrestricted | <u>2,616,483</u> |
| Total Net Assets | <u>\$56,097,786</u> |

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

| | Expenses | Program Revenues | | | Net (Expense) |
|--|---------------------|--------------------------------|--|----------------------------------|-----------------------------------|
| | | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Revenue and Changes in Net Assets |
| Governmental Activities: | | | | | Governmental Activities |
| Instruction: | | | | | |
| Regular | \$12,740,777 | \$1,037,826 | \$238,251 | \$0 | (\$11,464,700) |
| Special | 2,670,803 | 140,242 | 1,913,687 | 0 | (616,874) |
| Vocational | 788,535 | 65,367 | 140,621 | 0 | (582,547) |
| Student Intervention Services | 111,904 | 2,377 | 78,012 | 0 | (31,515) |
| Support Services: | | | | | |
| Pupils | 1,145,220 | 0 | 26,074 | 0 | (1,119,146) |
| Instructional Staff | 2,213,413 | 0 | 607,143 | 0 | (1,606,270) |
| Board of Education | 22,445 | 0 | 0 | 0 | (22,445) |
| Administration | 2,065,691 | 0 | 172,764 | 0 | (1,892,927) |
| Fiscal | 584,516 | 0 | 0 | 0 | (584,516) |
| Business | 1,375 | 0 | 0 | 0 | (1,375) |
| Operation and Maintenance of Plant | 2,039,440 | 14,170 | 86,669 | 300,000 | (1,638,601) |
| Pupil Transportation | 1,702,263 | 0 | 30,401 | 0 | (1,671,862) |
| Central | 112,387 | 0 | 16,375 | 0 | (96,012) |
| Operation of Non-Instructional Services: | | | | | |
| Community Services | 123,795 | 0 | 83,943 | 0 | (39,852) |
| Food Service Operations | 1,038,130 | 386,146 | 688,859 | 0 | 36,875 |
| Extracurricular Activities | 617,132 | 182,361 | 14,654 | 0 | (420,117) |
| Interest and Fiscal Charges | 543,382 | 0 | 0 | 0 | (543,382) |
| Total Governmental Activities | \$28,521,208 | \$1,828,489 | \$4,097,453 | \$300,000 | (22,295,266) |

| | |
|---|---------------------|
| General Revenues: | |
| Property Taxes Levied for: | |
| General Purposes | 5,035,124 |
| Debt Service | 938,865 |
| Classroom Facilities Maintenance | 104,805 |
| Income Taxes | 2,277,640 |
| Grants and Entitlements not Restricted to Specific Programs | 12,816,823 |
| Gifts and Donations | 7,351 |
| Interest | 116,815 |
| Miscellaneous | 630,297 |
| Total General Revenues | 21,927,720 |
| Change in Net Assets | (367,546) |
| Net Assets at Beginning of Year- (Restated Note 3) | 56,465,332 |
| Net Assets at End of Year | \$56,097,786 |

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District

Balance Sheet
Governmental Funds
June 30, 2011

| | General | Debt Service | All Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|------------------------------------|--------------------------------|
| Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,988,749 | \$1,439,358 | \$3,243,809 | \$9,671,916 |
| Materials and Supplies Inventory | 0 | 0 | 968 | 968 |
| Inventory Held for Resale | 0 | 0 | 4,178 | 4,178 |
| Accounts Receivable | 14,536 | 0 | 0 | 14,536 |
| Accrued Interest Receivable | 2,158 | 0 | 2,240 | 4,398 |
| Intergovernmental Receivable | 41,114 | 0 | 245,683 | 286,797 |
| Property Taxes Receivable | 5,445,945 | 1,018,435 | 113,506 | 6,577,886 |
| Income Taxes Receivable | 996,167 | 0 | 0 | 996,167 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 75,952 | 0 | 0 | 75,952 |
| Advances to Other Funds | 15,000 | 0 | 0 | 15,000 |
| Total Assets | <u>\$11,579,621</u> | <u>\$2,457,793</u> | <u>\$3,610,384</u> | <u>\$17,647,798</u> |
| Liabilities: | | | | |
| Accounts Payable | \$65,159 | \$0 | \$25,547 | \$90,706 |
| Accrued Wages and Benefits Payable | 1,532,156 | 0 | 323,932 | 1,856,088 |
| Intergovernmental Payable | 276,860 | 0 | 57,695 | 334,555 |
| Matured Compensated Absences Payable | 146,463 | 0 | 0 | 146,463 |
| Deferred Revenue | 5,437,962 | 990,374 | 205,978 | 6,634,314 |
| Advances From Other Funds | 0 | 0 | 15,000 | 15,000 |
| Total Liabilities | <u>7,458,600</u> | <u>990,374</u> | <u>628,152</u> | <u>9,077,126</u> |
| Fund Balances: | | | | |
| Nonspendable | 15,000 | 0 | 5,968 | 20,968 |
| Restricted | 75,952 | 1,467,419 | 3,139,439 | 4,682,810 |
| Committed | 464,505 | 0 | 0 | 464,505 |
| Assigned | 145,054 | 0 | 0 | 145,054 |
| Unassigned (Deficit) | <u>3,420,510</u> | <u>0</u> | <u>(163,175)</u> | <u>3,257,335</u> |
| Total Fund Balances | <u>4,121,021</u> | <u>1,467,419</u> | <u>2,982,232</u> | <u>8,570,672</u> |
| Total Liabilities and Fund Balances | <u>\$11,579,621</u> | <u>\$2,457,793</u> | <u>\$3,610,384</u> | <u>\$17,647,798</u> |

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2011

| | | |
|---|---------------------|--------------------------------|
| Total Governmental Fund Balances | | \$8,570,672 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | | |
| Capital assets | 71,715,300 | |
| Accumulated depreciation | <u>(11,730,607)</u> | |
| Total capital assets | | 59,984,693 |
| Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. | | |
| Property Taxes | 498,950 | |
| Income Taxes | 139,125 | |
| Intergovernmental | <u>95,532</u> | |
| | | 733,607 |
| Early retirement incentives payable are not due and payable in the current period and therefore are not reported in the funds. | | |
| | | (476,499) |
| Governmental funds report issuance costs as expenditures, whereas these amounts are deferred and amortized in the Statement of Activities. | | |
| | | 100,385 |
| In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | | |
| | | (25,935) |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| Bonds payable | (10,710,000) | |
| Premium on debt issuance | (242,947) | |
| Deferred gain on refunding | 138,516 | |
| Accretion on capital appreciation bonds | (3,209) | |
| Capital leases | (739,000) | |
| Early retirement incentive payable | (320,000) | |
| Compensated absences | <u>(912,497)</u> | |
| | | <u>(12,789,137)</u> |
| Net Assets of Governmental Activities | | <u><u>\$56,097,786</u></u> |

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

| | General | Debt Service | All Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------|------------------------------------|--------------------------------|
| Revenues: | | | | |
| Property Taxes | \$4,971,977 | \$927,643 | \$103,412 | \$6,003,032 |
| Income Taxes | 2,273,943 | 0 | 0 | 2,273,943 |
| Intergovernmental | 12,733,110 | 140,788 | 4,335,810 | 17,209,708 |
| Interest | 97,648 | 0 | 19,161 | 116,809 |
| Tuition and Fees | 1,198,657 | 0 | 0 | 1,198,657 |
| Extracurricular Activities | 50,722 | 0 | 131,639 | 182,361 |
| Customer Sales and Services | 57,321 | 0 | 386,240 | 443,561 |
| Rent | 14,170 | 0 | 0 | 14,170 |
| Gifts and Donations | 7,351 | 0 | 14,654 | 22,005 |
| Miscellaneous | 177,455 | 0 | 455,325 | 632,780 |
| Total Revenues | 21,582,354 | 1,068,431 | 5,446,241 | 28,097,026 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 10,123,451 | 0 | 772,110 | 10,895,561 |
| Special | 1,492,616 | 0 | 1,091,909 | 2,584,525 |
| Vocational | 655,557 | 0 | 0 | 655,557 |
| Student Intervention Services | 13,052 | 0 | 82,712 | 95,764 |
| Support Services: | | | | |
| Pupils | 1,049,962 | 0 | 26,872 | 1,076,834 |
| Instructional Staff | 1,219,144 | 0 | 900,236 | 2,119,380 |
| Board of Education | 22,445 | 0 | 0 | 22,445 |
| Administration | 1,526,487 | 0 | 378,620 | 1,905,107 |
| Fiscal | 554,504 | 33,965 | 3,762 | 592,231 |
| Business | 1,375 | 0 | 0 | 1,375 |
| Operation and Maintenance of Plant | 1,563,926 | 0 | 299,800 | 1,863,726 |
| Pupil Transportation | 1,670,315 | 0 | 63,471 | 1,733,786 |
| Central | 95,664 | 0 | 16,375 | 112,039 |
| Operation of Non-Instructional Services: | | | | |
| Community Services | 37,728 | 0 | 0 | 37,728 |
| Food Service Operations | 3,453 | 0 | 948,872 | 952,325 |
| Extracurricular Activities | 392,643 | 0 | 172,991 | 565,634 |
| Capital Outlay | 26,329 | 0 | 0 | 26,329 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 396,000 | 0 | 396,000 |
| Interest and Fiscal Charges | 0 | 558,469 | 0 | 558,469 |
| Bond Issuance Costs | 0 | 100,602 | 0 | 100,602 |
| Total Expenditures | 20,448,651 | 1,089,036 | 4,841,925 | 26,379,612 |
| Excess of Revenues Over (Under) Expenditures | 1,133,703 | (20,605) | 604,316 | 1,717,414 |
| Other Financing Sources (Uses): | | | | |
| Refunding Bonds Issued | 0 | 5,830,000 | 0 | 5,830,000 |
| Premium on Refunding Bonds Issued | 0 | 243,468 | 0 | 243,468 |
| Payment to Refunded Bond Escrow Agent | 0 | (5,968,816) | 0 | (5,968,816) |
| Transfers In | 0 | 56,241 | 350,000 | 406,241 |
| Transfers Out | (406,241) | 0 | 0 | (406,241) |
| Total Other Financing Sources (Uses) | (406,241) | 160,893 | 350,000 | 104,652 |
| Net Change in Fund Balances | 727,462 | 140,288 | 954,316 | 1,822,066 |
| Fund Balances at Beginning of Year - Restated (See Note 3) | 3,393,559 | 1,327,131 | 2,027,916 | 6,748,606 |
| Fund Balances at End of Year | <u>\$4,121,021</u> | <u>\$1,467,419</u> | <u>\$2,982,232</u> | <u>\$8,570,672</u> |

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$1,822,066

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

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

| | | |
|--|-------------|-------------|
| Capital assets additions | 311,062 | |
| Depreciation expense | (2,159,782) | |
| Excess of capital outlay over depreciation expense | | (1,848,720) |

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

| | | |
|-----------------------------|----------|--------|
| Delinquent property taxes | 75,762 | |
| Income taxes | 3,697 | |
| Intergovernmental | (10,086) | |
| Tuition and fees | (10,166) | |
| Customer sales and services | (94) | |
| Other | (2,483) | |
| | | 56,630 |

The Internal Service Fund used by management to charge the cost of insurance to individual funds is reported in the entity-wide Statement of Activities (71,946)

Bond proceeds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

| | | |
|----------------------------|-------------|-------------|
| Refunding bonds issued | (5,830,000) | |
| Premium on refunding bonds | (243,468) | |
| | | (6,073,468) |

Government funds report bond issuance costs as expenditures, whereas these amounts are deferred and amortized in the Statement of Activities. 100,602

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. The difference in the amount of interest on the Statement of Activities is the result of the following:

| | | |
|---|---------|--------|
| Decrease in Accrued interest on bonds | 18,292 | |
| Amortization of issuance costs | (217) | |
| Amortization of gain on refunding | (300) | |
| Amortization of bond premium | 521 | |
| Accretion on capital appreciation bonds | (3,209) | |
| | | 15,087 |

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current fiscal year, this amount consisted of:

| | | |
|---------------------------|-----------|-----------|
| Advance refunding | 5,968,816 | |
| Bond principal retirement | 375,000 | |
| Capital lease payments | 21,000 | |
| | | 6,364,816 |

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

| | | |
|--|-----------|-----------|
| Decrease in compensated absences | 63,886 | |
| Increase in early retirement incentive payable | (796,499) | |
| Total additional expenditures | | (732,613) |

Change in Net Assets of Governmental Activities (\$367,546)

Hillsboro City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with |
|---|--------------------|--------------------|--------------------|------------------------|
| | Original | Final | | Final Budget |
| | | | | Positive (Negative) |
| Revenues: | | | | |
| Property Taxes | \$5,906,486 | \$5,392,631 | \$5,392,631 | \$0 |
| Income Taxes | 2,433,649 | 2,221,926 | 2,221,926 | 0 |
| Intergovernmental | 11,748,425 | 12,744,136 | 12,744,136 | 0 |
| Interest | 90,604 | 98,283 | 98,283 | 0 |
| Tuition and Fees | 1,105,016 | 1,198,669 | 1,198,669 | 0 |
| Extracurricular Activities | 46,759 | 50,722 | 50,722 | 0 |
| Customer Services | 52,842 | 57,321 | 57,321 | 0 |
| Rent | 13,151 | 14,266 | 14,266 | 0 |
| Gifts and Donations | 6,777 | 7,351 | 7,351 | 0 |
| Miscellaneous | 152,089 | 164,979 | 164,979 | 0 |
| Total Revenues | 21,555,798 | 21,950,284 | 21,950,284 | 0 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 8,804,152 | 8,506,513 | 8,532,486 | (25,973) |
| Special | 1,491,542 | 1,441,115 | 1,445,518 | (4,403) |
| Vocational | 677,995 | 655,086 | 657,074 | (1,988) |
| Student Intervention Services | 72,827 | 70,364 | 70,580 | (216) |
| Other | 1,670,795 | 1,614,280 | 1,619,240 | (4,960) |
| Support Services: | | | | |
| Pupils | 1,057,294 | 1,021,533 | 1,024,670 | (3,137) |
| Instructional Staff | 1,268,824 | 1,226,020 | 1,229,672 | (3,652) |
| Board of Education | 24,590 | 23,758 | 23,831 | (73) |
| Administration | 1,597,174 | 1,543,158 | 1,547,891 | (4,733) |
| Fiscal | 589,972 | 570,098 | 571,767 | (1,669) |
| Business | 1,419 | 1,371 | 1,375 | (4) |
| Operation and Maintenance of Plant | 1,675,535 | 1,619,043 | 1,623,834 | (4,791) |
| Pupil Transportation | 1,720,172 | 1,661,992 | 1,667,093 | (5,101) |
| Central | 98,890 | 95,547 | 95,839 | (292) |
| Operation of Non-Instructional Services: | | | | |
| Community Services | 38,929 | 37,612 | 37,728 | (116) |
| Extracurricular Activities | 405,751 | 393,115 | 393,231 | (116) |
| Capital Outlay | 27,167 | 26,248 | 26,329 | (81) |
| Total Expenditures | 21,223,028 | 20,506,853 | 20,568,158 | (61,305) |
| Excess of Revenues Over (Under) Expenditures | 332,770 | 1,443,431 | 1,382,126 | (61,305) |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Sale of Capital Assets | 0 | 4,700 | 4,700 | 0 |
| Advances In | 0 | 365,969 | 365,969 | 0 |
| Refund of Prior Year Expenditures | 0 | 26,773 | 26,773 | 0 |
| Transfers Out | 0 | (406,241) | (406,241) | 0 |
| Total Other Financing Sources (Uses) | 0 | (8,799) | (8,799) | 0 |
| Net Change in Fund Balance | 332,770 | 1,434,632 | 1,373,327 | (61,305) |
| Fund Balance at Beginning of Year | 3,402,798 | 3,402,798 | 3,402,798 | 0 |
| Prior Year Encumbrances Appropriated | 113,935 | 113,935 | 113,935 | 0 |
| Fund Balance at End of Year | \$3,849,503 | \$4,951,365 | \$4,890,060 | (\$61,305) |

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2011

| | Self-Insurance | Totals (Memorandum Only) |
|---------------------------------|----------------|--------------------------------|
| Operating Revenues: | \$0 | |
| Operating Expenses: | | |
| Purchased Services | 71,952 | 71,952 |
| <i>Operating Loss</i> | (71,952) | (71,952) |
| Non-Operating Revenues: | | |
| Interest | 6 | 6 |
| Change in Net Assets | (71,946) | (71,946) |
| Net Assets at Beginning of Year | 71,946 | 71,946 |
| Net Assets at End of Year | \$0 | \$0 |

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2011

| | <u>Self-Insurance</u> |
|---|-----------------------|
| Increases (Decreases) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities: | |
| Cash Payments to Suppliers for Goods and Services | (\$84,633) |
| Cash Flows from Investing Activities: | |
| Interest | 6 |
| Decrease in Cash and Cash Equivalents | (84,627) |
| Cash and Cash Equivalents at Beginning of Year | 84,627 |
| Cash and Cash Equivalents at End of Year | \$0 |
| Reconciliation of Operating Loss to Net Cash | |
| Used For Operating Activities: | |
| Operating Loss | (\$71,952) |
| Adjustments to Reconcile Operating Loss to | |
| Net Cash Used For Operating Activities: | |
| Decrease in Accrued Wages and Benefits | (12,681) |
| Net Cash Used For Operating Activities | (\$84,633) |

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

| | Private Purpose Trust | |
|--|--------------------------|----------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$13,598 | \$81,262 |
| Liabilities: | | |
| Undistributed Monies | 0 | \$81,262 |
| Net Assets: | | |
| Held in Trust for Scholarships | \$13,598 | |

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2011

| | Private Purpose Trust |
|--|--------------------------|
| | Scholarship |
| Additions: | |
| Gifts and Contributions | \$2,000 |
| Deductions: | |
| Payments in Accordance with Trust Agreements | 2,500 |
| Change in Net Assets | (500) |
| Net Assets at Beginning of Year | 14,098 |
| Net Assets at End of Year | \$13,598 |

See accompanying notes to the basic financial statements

This page intentionally left blank.

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by State and/or federal agencies. This Board controls the School District's instructional and support facilities staffed by 113 non-certified personnel and 199 certified teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the School District's ADM is 2,676. It currently operates one elementary building housing grades K-5, and one Middle School/Senior High building housing grades 6-12. The Administrative Office is located at 39 Willettsville Pike, Hillsboro, Ohio.

Reporting Entity:

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

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

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

The School District is associated with Miami Valley Educational Computer Association and the Coalition of Rural and Appalachian Schools which are defined as jointly governed organizations. These organizations are presented in Note 20 of the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the Internal Service Fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

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

Debt Service Fund - The Debt Service Fund is used to account for and report the accumulation of resources for, and the payment of, general obligation bond principal and interest and certain other long-term obligations when the School District is obligated for the payment.

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

Proprietary Fund:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Service Fund - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District. The Internal Service Fund is used to account for dental benefits provided to employees and incurred prior to September 2009.

Fiduciary Funds:

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

Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The Statement of Cash Flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined and “available” means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, “available” means expected to be received within 60 days of fiscal year-end.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue:

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures:

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

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

Cash and Cash Equivalents

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

During fiscal year 2011, the School District's investments were limited to Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Medium Term Notes, Federal National Mortgage Association Notes, and negotiable certificates of deposit.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2011 amounted to \$97,648, which includes \$47,498 assigned from other School District funds.

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

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

Restricted Assets

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

Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets usually 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.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement costs back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$2,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Balances

On fund financial statements, long-term interfund loan receivables are reported as “Advances to Other Funds” or “Advances from Other Funds” and are equally offset by a fund balance reserve in the funds making the advances, which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

Compensated Absences

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

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

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

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 proprietary fund are reported on the 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 early retirement incentives that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year. Bonds and capital leases that will be paid from governmental funds are recognized as an expenditure and liability on the governmental fund financial statements when due.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

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

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

Internal Activity

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

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

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

Estimates

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond Premiums/Issuance Costs/Interest on Capital Appreciation Bonds/Accounting Gain/Loss on Refunded Bonds

In the government-wide financial statements, bond premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. The liability for capital appreciation bonds is increased each year for the compounded interest accrued during the fiscal year. Bond premiums and the compounded interest on the capital appreciation bonds are presented as an addition to the face amount of the bonds payable, whereas issuance costs are reported as deferred charges.

On the government-wide financial statements, an advance refunding resulting in the defeasance of debt generates an accounting gain or loss calculated by comparing the reacquisition price and the net carrying amount of the old debt. This accounting gain/loss is amortized as interest expense over the remaining useful life of the old debt or the life of the new debt, whichever is shorter, and is presented as an increase/reduction of the face amount of the new debt.

On the governmental fund financial statements, bond premiums and issuance costs are recognized in the period when the debt is issued. Interest on capital appreciation bonds is recorded as an expenditure when the debt becomes due.

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore, does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element prevents one classification from being overstated while another is understated by the same amount.

Operating Revenues And Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are classified as non-operating.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Process

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

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

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

Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education.

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

Change in Accounting Principles

The School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the following change to fund balances at June 30, 2010, as previously reported:

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS (continued)

| | <u>General Fund</u> | <u>Classroom Facilities Fund</u> | <u>All Other Governmental Funds</u> |
|---|-------------------------|--|---|
| Fund Balance, June 30, 2010, as previously reported | \$3,236,194 | \$858,476 | \$1,326,805 |
| Reclassification of Funds | 157,365 | 0 | (157,365) |
| Major Fund Reclassification | 0 | (858,476) | 858,476 |
| Fund Balance, June 30, 2010, as restated | <u>\$3,393,559</u> | <u>\$0</u> | <u>\$2,027,916</u> |

Restatement of Net Assets

During 2011, it was discovered that capital assets were overstated. The overstatement had the following effect on net assets as previously reported:

| | |
|---|------------------------------------|
| | <u>Governmental Activities</u> |
| Net Assets, June 30, 2010, as previously reported | \$59,292,495 |
| Restatement of Capital Assets | (2,827,163) |
| Net Assets, June 30, 2010, as restated | <u>\$56,465,332</u> |

NOTE 4 - FUND BALANCES

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 4 - FUND BALANCES (continued)

| Fund Balances | General | Debt Service | All Other Governmental Funds | Total |
|------------------------------------|--------------------|--------------------|------------------------------------|--------------------|
| <i>Nonspendable</i> | | | | |
| Long-Term Advances | \$15,000 | \$0 | \$0 | \$15,000 |
| Inventory | 0 | 0 | 968 | 968 |
| Library Materials | 0 | 0 | 5,000 | 5,000 |
| <i>Total Nonspendable</i> | 15,000 | 0 | 5,968 | 20,968 |
| <i>Restricted for</i> | | | | |
| Debt Service | 0 | 1,467,419 | 0 | 1,467,419 |
| Food Service Operations | 0 | 0 | 178,796 | 178,796 |
| Miscellaneous Grants | 0 | 0 | 20,226 | 20,226 |
| Set Asides | 75,952 | 0 | 0 | 75,952 |
| Library Services | 0 | 0 | 100 | 100 |
| Extracurricular | 0 | 0 | 15,514 | 15,514 |
| Capital Projects | 0 | 0 | 1,793,576 | 1,793,576 |
| Capital Maintenance | 0 | 0 | 1,131,227 | 1,131,227 |
| <i>Total Restricted</i> | 75,952 | 1,467,419 | 3,139,439 | 4,682,810 |
| <i>Committed to</i> | | | | |
| Other Purposes | 464,505 | 0 | 0 | 464,505 |
| <i>Assigned to</i> | | | | |
| Other Purposes | 145,054 | 0 | 0 | 145,054 |
| <i>Unassigned (Deficit)</i> | 3,420,510 | 0 | (163,175) | 3,257,335 |
| <i>Total Fund Balances</i> | \$4,121,021 | \$1,467,419 | \$2,982,232 | \$8,570,672 |

NOTE 5 - ACCOUNTABILITY

At June 30, 2011, the Alternative School, Education Jobs Grant, IDEA-B, Career Education, Education Stabilization, Title I, Title II-A, and Miscellaneous Grant funds had negative fund balances of \$6, \$13,819, \$28,233, \$5, \$93,455, \$20,342, \$5,342, and \$1,973, respectively. The deficits in these funds were created by the recognition of accrued liabilities. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

| Net Change in Fund Balance | |
|-----------------------------|-------------|
| GAAP Basis | \$727,462 |
| Adjustments: | |
| Revenue Accruals | 397,302 |
| Expenditure Accruals | 56,815 |
| Encumbrances | (176,322) |
| Advances | 365,969 |
| Increase in Fair Market | |
| Value of Investments - 2010 | 420 |
| Decrease in Fair Market | |
| Value of Investments - 2011 | 1,681 |
| Budget Basis | \$1,373,327 |

NOTE 7 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 7 - DEPOSITS AND INVESTMENTS (continued)

8. Commercial paper and bankers acceptances if training requirements have been met.

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

Cash on Hand

At fiscal year end, the School District had \$2,600 in undeposited cash on hand which is included on the Statement of Net Assets and governmental balance sheet of the School District as part of “Equity in Pooled Cash and Investments”.

Investments

As of June 30, 2011, the School District had the following investments:

| | <u>Fair Value</u> | <u>Maturity</u> | <u>Percent of Total Investments</u> |
|---|---------------------------|-----------------------|---|
| Federal Home Loan Bank Notes | \$455,724 | Less than two years | 23.19% |
| Federal Home Loan Mortgage Corporation Medium Term Notes | 250,231 | Less than two years | N/A |
| Federal National Mortgage Association Notes | 274,931 | Less than two years | N/A |
| Negotiable Certificates of Deposit | 984,299 | Less than three years | 50.09% |
| Total Investments | <u><u>\$1,965,185</u></u> | | |

Interest Rate Risk

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

Credit Risk

The negotiable certificates of deposit are in denominations of under \$250,000 each, in separate banks, and are insured by the Federal Deposit Insurance Corporation (FDIC). The negotiable certificates of deposit are, therefore, not subject to credit risk. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 8 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2011 (other than public utility property tax) represents the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 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 School District prior to June 30.

The School District receives property taxes from Highland County. The Highland County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 8 - PROPERTY TAXES (continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2011 was \$147,108 in the General Fund, \$28,061 in the Debt Service Fund, and \$3,060 in the All Other Governmental Funds. The amount available as an advance at June 30, 2010 was \$567,762 in the General Fund, \$108,980 in the Debt Service Fund, and \$11,704 in the All Other Governmental Funds.

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

The School District's assessed values upon which fiscal year 2011 taxes were collected are:

| | 2010 Second - Half Collections | | 2011 First - Half Collections | |
|---|-----------------------------------|----------------|----------------------------------|----------------|
| | Amount | Percentage | Amount | Percentage |
| Agricultural/Residential and Other Real Estate | \$275,502,540 | 95.80% | \$276,352,410 | 95.64% |
| Public Utility Personal | 11,944,580 | 4.00% | 12,587,260 | 4.36% |
| General Business Personal | 276,975 | 0.20% | 0 | 0.00% |
| Total Assessed Value | <u>\$287,724,095</u> | <u>100.00%</u> | <u>\$288,939,670</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$30.85 | | \$30.85 | |

NOTE 9 - INCOME TAX

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

| | Restated Balance at 6/30/10 | Additions | Deductions | Balance at 6/30/11 |
|---|--------------------------------|----------------------|------------|---------------------|
| <u>Governmental Activities:</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$574,464 | \$0 | \$0 | \$574,464 |
| Construction in Progress | 0 | 26,329 | 0 | 26,329 |
| Total Capital Assets Not Being Depreciated | <u>574,464</u> | <u>26,329</u> | <u>0</u> | <u>600,793</u> |
| Capital Assets Being Depreciated: | | | | |
| Land Improvements | 2,618,891 | 0 | 0 | 2,618,891 |
| Buildings and Improvements | 62,202,845 | 67,783 | 0 | 62,270,628 |
| Furniture, Fixtures and Equipment | 3,132,040 | 0 | 0 | 3,132,040 |
| Vehicles | 1,879,875 | 216,950 | 0 | 2,096,825 |
| Textbooks | 996,123 | 0 | 0 | 996,123 |
| Totals Capital Assets Being Depreciated | <u>70,829,774</u> | <u>284,733</u> | <u>0</u> | <u>71,114,507</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (840,793) | (142,239) | 0 | (983,032) |
| Building and Improvements | (5,649,868) | (1,473,486) | 0 | (7,123,354) |
| Furniture, Fixtures and Equipment | (930,847) | (331,864) | 0 | (1,262,711) |
| Vehicles | (1,250,449) | (147,357) | 0 | (1,397,806) |
| Textbooks | (898,868) | (64,836) | 0 | (963,704) |
| Total Accumulated Depreciation | <u>(9,570,825)</u> | <u>(2,159,782) *</u> | <u>0</u> | <u>(11,730,607)</u> |
| Total Capital Assets Being Depreciated, Net | <u>61,258,949</u> | <u>(1,875,049)</u> | <u>0</u> | <u>59,383,900</u> |
| Governmental Activities Capital Assets, Net | <u>\$61,833,413</u> | <u>(\$1,848,720)</u> | <u>\$0</u> | <u>\$59,984,693</u> |

* Depreciation expense was charged to governmental functions as follows:

| | |
|---|--------------------|
| Instruction: | |
| Regular | \$1,472,996 |
| Special | 60,144 |
| Vocational | 14,867 |
| Support Services: | |
| Instructional Staff | 7,512 |
| Administration | 79,529 |
| Fiscal | 772 |
| Operation and Maintenance of Plant | 243,726 |
| Pupil Transportation | 164,375 |
| Operation of Non-Instructional Services - Food Service Operations | 64,710 |
| Extracurricular Activities | 51,151 |
| Total Depreciation Expense | <u>\$2,159,782</u> |

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 11 - RECEIVABLES

Receivables at June 30, 2011, consisted of accounts (student fees), interest, intergovernmental grants, property taxes, income taxes and interfund. All receivables, except for delinquent property taxes, are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. Intergovernmental receivables consist of the following:

| | <u>Amounts</u> |
|-------------------------------------|-------------------------|
| <u>Governmental Activities:</u> | |
| Medicaid Reimbursement | \$10,447 |
| SERS Overfunding | 30,667 |
| Education Jobs Grant | 15,253 |
| Idea - B Grant | 71,220 |
| School Improvement Grant | 14,103 |
| Title I Grant | 120,229 |
| Title II - A Grant | 20,504 |
| Title VI - B Grant | <u>4,374</u> |
| Total Intergovernmental Receivables | <u><u>\$286,797</u></u> |

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

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

General Liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 for automobile liability. The School District also has umbrella liability coverage with a limit of \$5,000,000. There has been no significant change in coverage from the prior fiscal year. Settled claims have not exceeded coverage in any of the past three years.

In addition, the School District maintains replacement cost insurance on buildings and contents in the blanket amount of \$74,390,345. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The School District pays all appointed officials' bonds by statute.

NOTE 12 - RISK MANAGEMENT (continued)

B. Employee Medical Benefits

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

The School District provides life insurance to employees through Anthem.

NOTE 13 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$287,851, \$254,682 and \$326,413, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can 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.

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by 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 DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$1,381,163 for the fiscal year ended June 30, 2011, \$1,358,318 for the fiscal year ended June 30, 2010, and \$1,397,171 for the fiscal year ended June 30, 2009. For fiscal year 2011, 83.62 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2011 were \$8,098 made by the School District and \$5,784 made by the plan members. In addition, member contributions of \$13,541 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2011, one member of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 14 – POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administrated by the School Employees Retirement System 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 obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 105(e). For fiscal year 2011, 1.43 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 fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the School District paid \$48,747 in surcharge.

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 School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$83,601, \$71,425, and \$173,460, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$18,524, \$15,145, and \$26,932, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health 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. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$106,243, \$104,486, and \$107,475 respectively. For fiscal year 2011, 83.62 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

NOTE 15 - EMPLOYEE BENEFITS

Compensated Absences

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 15 - EMPLOYEE BENEFITS (continued)

Early Retirement Incentive

In fiscal year 2011, the School District is offering a one-time early retirement incentive package for employees who are eligible to retire. Teachers and administrators electing the incentive will receive \$40,000, plus severance pay. Classified staff electing the incentive will receive 100 percent of his/her 2010-2011 base salary, not to exceed \$20,000, plus severance pay. Twenty-three employees elected to accept the retirement incentive package during fiscal year 2011. As of June 30, 2011, \$796,499 in early retirement incentives payable were outstanding. Of this amount, \$476,499 will be paid within one year.

NOTE 16 - CAPITALIZED LEASES – LESSEE DISCLOSURE

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

The leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the leasee.

Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments totaled \$21,000 during fiscal year 2011.

The assets acquired through capital leases are as follows:

| | Asset Value | Accumulated Depreciation | Net Book Value |
|----------------------------|----------------|-----------------------------|-------------------|
| Asset: | | | |
| Buildings and Improvements | \$818,000 | \$69,300 | \$748,700 |

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 16 - CAPITALIZED LEASES – LESSEE DISCLOSURE (continued)

| Fiscal Year Ending June 30, | Total Payments |
|--|----------------|
| 2012 | \$54,741 |
| 2013 | 55,722 |
| 2014 | 55,634 |
| 2015 | 55,500 |
| 2016 | 56,296 |
| 2017-2021 | 273,932 |
| 2022-2026 | 274,466 |
| 2027-2031 | 273,182 |
| 2032 | 53,000 |
| Total Minimum Lease Payments | 1,152,473 |
| Less Amount Representing Interest and Fees | (413,473) |
| Present Value of Minimum Lease Payments | \$739,000 |

NOTE 17 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

| | Amount Outstanding 6/30/10 | Additions | Deductions | Amount Outstanding 6/30/11 | Amounts Due in One Year |
|---|----------------------------------|-------------|-------------|----------------------------------|-------------------------------|
| <i>Governmental Activities:</i> | | | | | |
| General Obligation Bonds: | | | | | |
| School Improvements - 2001 3.25% | \$8,165,000 | \$0 | \$6,105,000 | \$2,060,000 | \$285,000 |
| School Improvements - 2006 2.85% | 2,920,000 | 0 | 100,000 | 2,820,000 | 105,000 |
| School Improvements Refunding - | | | | | |
| 2011 3.5%-4.15% | 0 | 5,395,000 | 0 | 5,395,000 | 55,000 |
| Capital Appreciation Bonds 3.62%-3.86% | 0 | 435,000 | 0 | 435,000 | 0 |
| Premium on Refunding Bonds | 0 | 243,468 | 521 | 242,947 | 0 |
| Deferred Gain on Refunding | 0 | (138,816) | (300) | (138,516) | 0 |
| Accretion on Capital Appreciation Bonds | 0 | 3,209 | 0 | 3,209 | 0 |
| Capital Leases | 760,000 | 0 | 21,000 | 739,000 | 23,000 |
| Termination Benefits Payable | 0 | 320,000 | 0 | 320,000 | 0 |
| Compensated Absences | 976,383 | 173,474 | 237,360 | 912,497 | 114,420 |
| Total Governmental Activities | | | | | |
| Long-Term Liabilities | \$12,821,383 | \$6,431,335 | \$6,463,581 | \$12,789,137 | \$582,420 |

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

School Improvement Bonds 2001

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

The Bonds maturing on December 1, 2015 and December 1, 2028 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

| Redemption Date (December 1) | Principal Amount Subject to Mandatory Redemption |
|---------------------------------|---|
| 2014 | \$320,000 |
| 2024 | 530,000 |
| 2025 | 555,000 |
| 2026 | 585,000 |
| 2027 | 610,000 |
| | |

Unless previously redeemed, the remaining principal amounts of \$335,000 and \$640,000 will mature at stated maturity (December 1, 2015 and December 1, 2028, respectively).

The bonds maturing on or after December 1, 2012, excluding the term bond maturing December 1, 2015 and the serial bonds maturing December 1, 2016 through and including December 1, 2018 which are not callable, are subject to optional redemption, in whole or in part on any date at the option of the issuer on or after December 1, 2011, at par.

On May 23, 2006, the School District issued \$3,250,000 in general obligation bonds for the purpose of construction, improvements, renovations and additions to classroom facilities and providing equipment, furnishings and site improvements. These bonds are being paid from property tax revenues. The bonds were issued for a 23 year period, with final maturity in December 2028. The bonds will be retired from the Debt Service Fund.

The term bonds in the following table are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur at an amount which is 100 percent of the principal amount thereof plus accrued interest to the date of redemption. Unless otherwise called for redemption, the remaining principal amount of the bonds due December 1, 2018, 2020, 2022, 2024, 2026 and 2028 are to be paid at stated maturity.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

| Redemption Date (December 1) | Principal Amount Subject to Mandatory Redemption |
|---------------------------------|---|
| 2016 | \$130,000 |
| 2017 | 135,000 |
| 2019 | 150,000 |
| 2021 | 160,000 |
| 2023 | 180,000 |
| 2025 | 195,000 |
| 2027 | 215,000 |
| | |

The bonds maturing on and after December 1, 2016 are subject to optional redemption, in whole or in part on any date at the option of the issuer on or after June 1, 2016, at a price of par, which is 100 percent of the face value of the bonds.

In June 2011, the School District issued \$5,830,000 in school improvement bonds for the purpose of refunding a portion of the 2001 School Improvement Bonds. \$5,395,000 were serial bonds and \$435,000 were capital appreciation bonds. This was an advance refunding. The bonds were issued for an 18 year period, with final maturity in December 2019. The bonds were issued at a premium of \$243,468 and had related issuance costs of \$100,602. Both amounts will be amortized over the 18 year life of the bonds.

The School District defeased the 2001 School Improvement Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments due on the old bonds. Accordingly, the trust assets and the liability of the defeased bonds are not included in the School District's financial statements. As of June 30, 2011, \$5,830,000 of the bonds were unmatured and unpaid.

The refunding resulted in a difference of \$138,816 between the net carrying amount of the debt and the acquisition price. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense over the life of the bonds using the straight-line method. The School District's total debt service payments decreased by \$491,194 as a result of the advance refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$344,330.

The capital appreciation bonds will mature in fiscal years 2021 and 2022. The maturity amount of the capital appreciation bonds will be \$940,000. For fiscal year 2011, the capital appreciation bonds were accreted \$3,209.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The general obligation bonds will be paid from property tax revenues received in the Debt Service Fund. Capital leases will be paid from the Debt Service Fund and compensated absences will be paid from the General Fund.

The School District's overall legal debt margin was \$16,761,989 with an unvoted debt margin of \$288,940 at June 30, 2011.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2011, are as follows:

| Fiscal Year Ending June 30, | School Improvement Bonds | | | | |
|-----------------------------------|---------------------------|--------------------------|--------------------------------------|-------------------------------------|---------------------|
| | Serial Bonds Principal | Serial Bonds Interest | Capital Appreciation Principal | Capital Appreciation Interest | Total |
| 2012 | \$445,000 | \$401,189 | \$0 | \$0 | \$846,189 |
| 2013 | 465,000 | 403,639 | 0 | 0 | 868,639 |
| 2014 | 480,000 | 394,626 | 0 | 0 | 874,626 |
| 2015 | 505,000 | 379,179 | 0 | 0 | 884,179 |
| 2016 | 525,000 | 357,758 | 0 | 0 | 882,758 |
| 2017-2021 | 2,245,000 | 1,664,532 | 225,000 | 245,000 | 4,379,532 |
| 2022-2026 | 3,205,000 | 612,793 | 210,000 | 260,000 | 4,287,793 |
| 2027-2029 | 2,405,000 | 157,473 | 0 | 0 | 2,562,473 |
| Total | <u>\$10,275,000</u> | <u>\$4,371,189</u> | <u>\$435,000</u> | <u>\$505,000</u> | <u>\$15,586,189</u> |

NOTE 18 - INTERFUND ACTIVITY

A. Interfund Transfers

Transfers made during the fiscal year ended June 30, 2011, were as follows:

| Transfer From | Transfer To | | |
|---------------|--------------|------------------------------------|-----------|
| | Debt Service | All Other Governmental Funds | Total |
| General Fund | \$56,241 | \$350,000 | \$406,241 |

Transfers were made from the General Fund to move unrestricted balances to support programs and projects accounted for in other funds.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 18 - INTERFUND ACTIVITY (continued)

B. Advances To/From Other Funds

As of June 30, 2011, receivables and payables that resulted from various long-term advances were as follows:

| | | Advances From General Fund |
|-------------|------------------------------|-------------------------------|
| Advances To | All Other Governmental Funds | <u>\$15,000</u> |

The advance from the General Fund to All Other Governmental Funds was made to support programs related to extracurricular activities. The General Fund will be reimbursed when the monies are received or when balances become available.

NOTE 19 - SET-ASIDE CALCULATIONS

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

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 19 - SET-ASIDE CALCULATIONS (continued)

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|--|------------------|--------------------------------|---------------------------------|
| Set-aside Balance as of June 30, 2010 | \$0 | \$0 | \$75,952 |
| Excess Qualifying Expenditures from Prior Fiscal Years | (1,906,787) | 0 | 0 |
| Current Fiscal Year Set-aside Requirement | 397,468 | 397,468 | 0 |
| Prior Year Offset from Bond Proceeds | 0 | (119,847) | 0 |
| Current Fiscal Year Qualifying Expenditures | (463,119) | (277,621) | 0 |
| Set-aside Balance Carried | | | |
| Forward to Future Fiscal Years | (\$1,972,438) | \$0 | \$75,952 |
| Set-aside Balance | | | |
| as of June 30, 2011 | \$0 | \$0 | \$75,952 |

The School District had qualifying disbursements during the fiscal year that reduced the textbooks set-aside amount to below zero. This extra amount may be used to reduce the set-aside requirement in future fiscal years. Amounts of offsets for capital acquisitions presented in the table were limited to those necessary to reduce the fiscal year-end balance to zero.

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS

A. Miami Valley Educational Computer Association

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

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts, except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$83,808 for services provided during fiscal year 2011. Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (the “Coalition”) is a jointly governed organization of over 100 school districts in southeastern Ohio. The Coalition is operated by a board which is composed of 14 members. The board members are composed of one superintendent from each county elected by the school districts within that county.

The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition. The School District made no financial contribution to the Coalition for services provided during the fiscal year.

NOTE 21 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

B. Litigation

The School District is not party to any legal proceeding.

C. Statewide School Attendance Testing

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 21 – CONTINGENCIES (Continued)

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

| FEDERAL GRANTOR | | | | | | |
|--|----------------------------------|---------------------------|---------------------------|------------------------|---------------------------|---------------------------|
| <i>Pass Through Grantor</i> | | | | | | |
| Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| National School Breakfast Program | 3L70 | 10.553 | \$131,288 | | \$131,288 | |
| National School Lunch Program | 3L60 | 10.555 | 565,856 | 41,650 | 565,856 | \$41,650 |
| Total Nutrition Cluster | | | <u>697,144</u> | <u>41,650</u> | <u>697,144</u> | <u>41,650</u> |
| Total U.S. Department of Agriculture | | | <u>697,144</u> | <u>41,650</u> | <u>697,144</u> | <u>41,650</u> |
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | | |
| Special Education Cluster: | | | | | | |
| IDEA Part B | 3M20 | 84.027 | 457,034 | | 460,322 | |
| IDEA Part B - Stimulus | 3DJ0 | 84.391 | 247,654 | | 248,678 | |
| Early Childhood | 3C50 | 84.173 | 5,035 | | 5,035 | |
| Total Special Education Cluster | | | <u>709,723</u> | | <u>714,035</u> | |
| Title I Cluster: | | | | | | |
| ESEA Title I | 3M00 | 84.010 | 868,251 | | 867,745 | |
| ESEA Title I - Stimulus | 3DK0 | 84.389 | 262,207 | | 256,524 | |
| Total Title I Cluster | | | <u>1,130,458</u> | | <u>1,124,269</u> | |
| Fiscal Stabilization | | 84.394 | 974,599 | | 1,118,060 | |
| Title II-D Technology | 3S20 | 84.318 | 4,069 | | 1,127 | |
| Improving Teacher Quality | 3Y60 | 84.367 | 163,013 | | 163,714 | |
| Ed Jobs | 3ET0 | 84.410 | 173,687 | | 163,692 | |
| School Improvement Grants | 3AN0 | 84.377 | 11,365 | | 11,376 | |
| Education for Homeless Children and Youth - Stimulus | 3DG0 | 84.387 | 12,987 | | 12,978 | |
| Rural and Low Income | 3Y80 | 84.358 | 82,535 | | 81,202 | |
| Limited English Proficiency | 3Y70 | 84.365 | 511 | | 1,400 | |
| Total U.S. Department of Education | | | <u>3,262,947</u> | | <u>3,391,853</u> | |
| Total | | | <u><u>\$3,960,091</u></u> | <u><u>\$41,650</u></u> | <u><u>\$4,088,997</u></u> | <u><u>\$41,650</u></u> |

The accompanying notes are an integral part of this schedule.

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Hillsboro City School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 20, 2012, wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

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*.

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242
Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577

www.auditor.state.oh.us

Hillsboro City School District
Highland County
Independent Accountants' Report on Internal Control Over
Financial Reporting and On Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated September 20, 2012.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the audit committee, board of education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

September 20, 2012



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Hillsboro City School District, Highland County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Hillsboro City School District's major federal programs for the year ended June 30, 2011. 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 opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these 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 these requirements.

As described in finding 2011-02 in the accompanying schedule of findings, the District did not comply with requirements regarding reporting on the federal schedule applicable to its Nutrition Cluster (National School Lunch and School Breakfast) major federal program. Compliance with this requirement is necessary, in our opinion for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

The results of our auditing procedures also disclosed another instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2011-03.

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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2011-02 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2011-03 to be a significant deficiency.

The District's response to the findings we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

We also noted matters involving federal compliance or internal control over federal compliance not including in this report, that we reported to the District's management in a separate letter dated September 20, 2012.

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

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

Dave Yost
Auditor of State

September 20, 2012

This page intentionally left blank.

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | Yes |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | Yes |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Qualified |
| (d)(1)(vi) | Are there any reportable findings under § .510(a)? | Yes |
| (d)(1)(vii) | Major Programs (list): | Special Education Cluster: CFDA #84.027, 84.391, 84.173 Title I Cluster: CFDA #84.010 and 84.389 Nutrition Cluster: CFDA #10.553 and 10.555 Fiscal Stabilization: CFDA #84.394 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

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

FINDING NUMBER 2011-01

Material Weakness

The District's capital asset policy 7455 requires the District to capitalize assets over \$2,000 and determines policies for acquisitions and disposals to ensure that they are properly recorded. The District completed a high school building project and contracted with Industrial Appraisals to complete a physical inventory in the fall of 2009.

While testing capital assets we identified the following assets that should have been capitalized per the District's policy but were not represented on the District's capital asset records:

- Tennis Courts valued at \$52,228
- Wireless Internet System valued at \$29,600

We also determined the high school building was over stated by \$2,603,295 on the District's capital asset records. This was due to equipment and land improvements being included in the construction cost of the high school building. These equipment items and land improvements were also included in the equipment and land improvement totals on the District's capital asset records.

We identified the following assets that had been disposed but were still carried on the capital asset records:

- 3 buses were sold during fiscal year 2011, but there were no entries to the capital asset system to remove the buses that were sold and 2 buses had been disposed in prior periods. The total value of the assets was \$221,013 and they were fully depreciated.
- 4 modular class rooms that had been disposed in prior periods. The modular classrooms had a remaining book value of 209,454.

Adjustments were recorded in the District's financial statements and capital asset records to properly record the items above. We recommend that the District take due care to follow the District's policy when purchasing and disposing of capital assets and ensure that the capital asset system is updated appropriately. We recommend that the District reconcile the asset records to the Ohio School Facility Commission project disbursements to ensure that all assets that were purchased have been recorded.

Officials' Response:

Most of the confusion with the inventory was due to construction in process. That will no longer be a problem and be corrected in the next fiscal year.

3. FINDINGS FOR FEDERAL AWARDS

| | |
|------------------------------------|---|
| Finding Number | 2011-02 |
| CFDA Title and Number | Nutrition Cluster: CFDA # 10.553 and 10.555 |
| Federal Award Number / Year | 2011 |
| Federal Agency | US Department of Agriculture |
| Pass-Through Agency | Ohio Department of Education |

Noncompliance and Material Weakness

Office of Management and Budget (OMB) Circular A-133 Subpart C, Section .310(b) states, in part, that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements.

Office of Management and Budget (OMB) Circular A-133 Subpart C Section .300 states, in pertinent part, that the auditee shall:

- a. Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the federal agency, and name of the pass-through entity. (d) prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §.310.

While the District prepared a Schedule of Federal Awards Receipts and Expenditures (the Schedule), this schedule was not complete. The Nutrition Cluster (National School Lunch Program and the School Breakfast Program) major federal program amounting to \$738,794 of federal expenditures was not originally included on the Schedule.

We recommend the District exercise due care in the preparation and completion of the Schedule. The Treasurer should compare programs to the prior year schedule and to supporting accounting and grant records and follow up on any discrepancies.

Officials’ Response:

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

| | |
|------------------------------------|-------------------------------------|
| Finding Number | 2011-03 |
| CFDA Title and Number | Fiscal Stabilization: CFDA # 84.394 |
| Federal Award Number / Year | 2011 |
| Federal Agency | US Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Noncompliance and Significant Deficiency

2 CFR Section 215.22(a) indicates payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. Payment methods of State agencies or instrumentalities shall be consistent with Treasury-State CMIA agreements or default procedures codified at 31 CFR part 205. In addition, 34 CFR 80.20 (b)(7) indicates in part “When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.” Interest should not be earned on these funds. If interest is earned on the funds, the interest earned must be remitted to the U.S. Department of Education via a check sent to ODE. ODE will review the calculation and determine if the amount remitted is correct. An amount of \$100 per entity per year may be retained under 34 CFR 80.21 for administrative expenses.

SFSF program funds were advanced to the District through the foundation program. Foundation payments are automatically sent to the District on a bi-monthly basis. The District must have an internal control system in place for ensure advance SFSF payments are spent timely (i.e., within 30 days).

Our State Fiscal Stabilization Fund federal grant testing identified three months during the audit period that carried an ending balance equaling more than one month of average disbursements. As a result of the excess cash on hand, an estimate of \$920 of interest was earned on the State Fiscal Stabilization Fund during the year.

The District should closely monitor cash balances to minimize excess cash on hand. In addition, if more than \$100 of interest is earned on Federal funds, the District should ensure the excess interest is remitted to the U.S. Department of Education as required.

We recommend that a control be implemented to reduce the time between the receipt of these federal funds and the expenditure of the federal funds received which also includes procedures to monitor the amount of federal funds not expended in a timely fashion.

Officials’ Response:

I totally agree with the State Auditors that I did not expend the money in a timely manner. The Fiscal Stabilization money which flowed through the Ohio Department of Education came in large lump sums towards the end of the grant year making it a challenge to allocate towards expenses that were allowable in a timely manner.

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2010-001 | Lack of segregation of duties and reconciliation of lunchroom reports. | Yes | |
| 2010-002 | Material adjustments to capital assets, interfund receivable and payable balances and a fund reclassification. | | Partially Corrected; Capital asset misstatements reported in finding 2011-01 |

This page intentionally left blank.

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2011**

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|----------------|---|-----------------------------|----------------------------|
| 2011-02 | The School District will insure that all future federal programs are accurately included on the federal schedule by the treasurer reviewing federal schedule and comparing to prior audited federal schedule. | 6/30/12 | Deborah L. Lawwell |
| 2011-03 | The School District will insure that all future federal program expenditures are monitored to reduce the time between the receipt of federal funds and the expenditure of those federal funds. | 6/30/12 | Deborah L. Lawwell |

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Hillsboro City School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on October 8, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

September 20, 2012

This page intentionally left blank.



Dave Yost • Auditor of State

HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 9, 2012