



Dave Yost • Auditor of State

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland 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, the major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland 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.

As further described in Note 3 to the basic financial statements, the District restated its July 1, 2010 governmental fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2011, 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

December 19, 2011

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

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

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets of governmental activities decreased \$92,549 which represents a 2.52% decrease from 2010.
- General revenues accounted for \$8,660,801 in revenue or 80.30% of all revenues. Program specific revenues, in the form of charges for services and sales, grants and contributions accounted for \$2,124,365 or 19.70% of total revenues of \$10,785,166.
- The District had \$10,877,715 in expenses related to governmental activities; only \$2,124,365 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,660,801 were not adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$8,952,666 in revenues and \$9,140,298 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance decreased \$187,632 from a restated balance of \$1,722,161 to \$1,534,529.

Using the Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-52 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2011 and 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 7,414,647	\$ 7,795,175
Capital assets, net	1,802,766	1,841,552
Total assets	9,217,413	9,636,727
<u>Liabilities</u>		
Current liabilities	4,208,376	4,641,928
Long-term liabilities	1,429,948	1,323,161
Total liabilities	5,638,324	5,965,089
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,697,416	1,708,702
Restricted	355,519	144,311
Unrestricted	1,526,154	1,818,625
Total net assets	\$ 3,579,089	\$ 3,671,638

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$3,579,089.

At year-end, capital assets represented 19.56% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure, textbooks and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$1,697,416. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

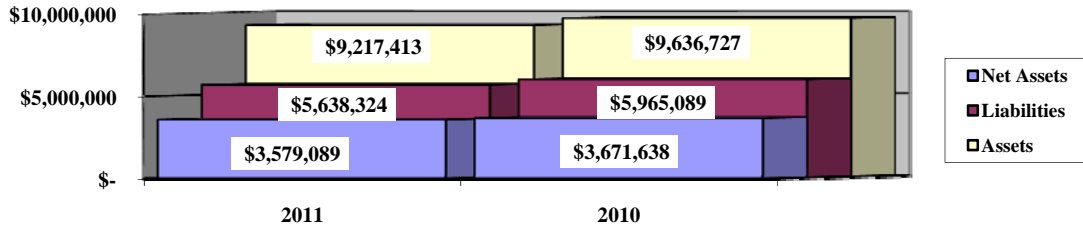
A portion of the District's net assets, \$355,519, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,526,154 may be used to meet the District's ongoing obligations to the students and creditors.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The graph below reports the District's governmental activities assets, liabilities and net assets at June 30, 2011 and 2010.

Governmental Activities



The table below shows the change in net assets for fiscal year 2011 and 2010.

	<u>Change in Net Assets</u>	
	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 817,185	\$ 785,777
Operating grants and contributions	1,307,180	1,034,754
General revenues:		
Property taxes	4,242,055	4,174,879
Grants and entitlements	4,244,287	4,587,955
Investment earnings	34,117	33,978
Other	<u>140,342</u>	<u>73,576</u>
Total revenues	<u>10,785,166</u>	<u>10,690,919</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

	Change in Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,929,008	\$ 4,619,246
Special	661,732	608,802
Vocational	432,023	407,793
Other	232,794	240,888
Support services:		
Pupil	619,247	568,682
Instructional staff	401,061	322,614
Board of education	37,951	55,673
Administration	876,786	870,548
Fiscal	331,708	338,485
Operations and maintenance	679,232	973,951
Pupil transportation	854,943	821,240
Central	6,825	6,859
Operation of non-instructional services:		
Food service operations	369,290	357,155
Other non-instructional services	1,966	617
Extracurricular activities	436,563	467,181
Interest and fiscal charges	6,586	8,016
Total expenses	10,877,715	10,667,750
Change in net assets	(92,549)	23,169
Net assets at beginning of year	3,671,638	3,648,469
Net assets at end of year	\$ 3,579,089	\$ 3,671,638

Governmental Activities

Net assets of the District's governmental activities decreased \$92,549. Total governmental expenses of \$10,877,715 were offset by program revenues of \$2,124,365 and general revenues of \$8,660,801. Program revenues supported 19.53% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 78.69% of total governmental revenue. Real estate property is reappraised every six years.

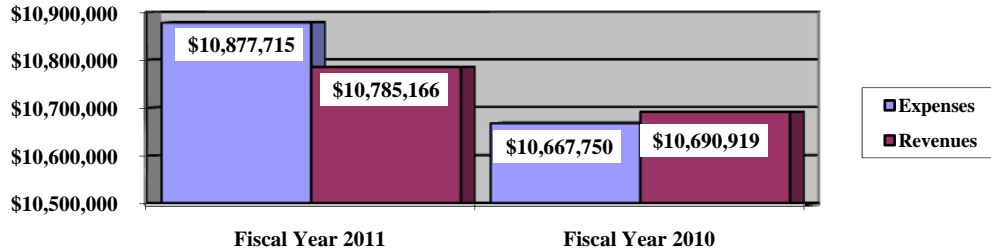
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,255,557 or 57.51% of total governmental expenses for fiscal year 2011.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2011 and 2010.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Program expenses				
Instruction:				
Regular	\$ 4,929,008	\$ 4,475,496	\$ 4,619,246	\$ 4,216,474
Special	661,732	260,997	608,802	419,246
Vocational	432,023	367,027	407,793	343,651
Other	232,794	-	240,888	22,453
Support services:				
Pupil	619,247	465,493	568,682	431,804
Instructional staff	401,061	326,226	322,614	283,847
Board of education	37,951	37,951	55,673	55,673
Administration	876,786	807,461	870,548	820,390
Fiscal	331,708	331,558	338,485	338,335
Operations and maintenance	679,232	678,114	973,951	971,044
Pupil transportation	854,943	816,955	821,240	714,964
Central	6,825	-	6,859	-
Food service operations	369,290	(24,460)	357,155	(39,922)
Operations of non-instructional services	1,966	1,415	617	617
Extracurricular activities	436,563	202,531	467,181	260,627
Interest and fiscal charges	6,586	6,586	8,016	8,016
Total expenses	<u>\$ 10,877,715</u>	<u>\$ 8,753,350</u>	<u>\$ 10,667,750</u>	<u>\$ 8,847,219</u>

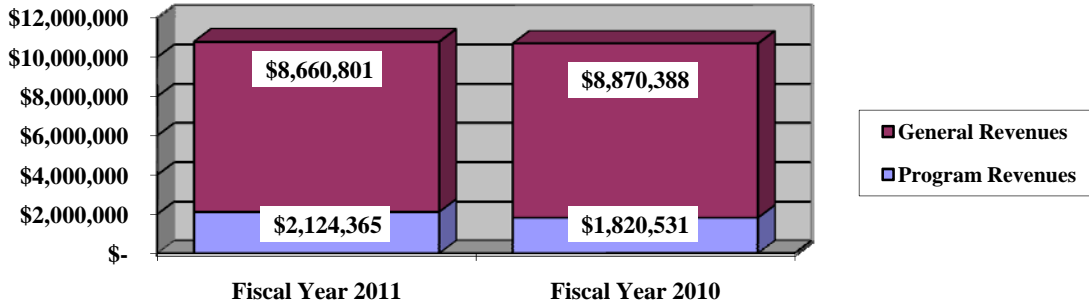
The dependence upon tax and other general revenues for governmental activities is apparent, as 81.58% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.47%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are the primary support for the District's students.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal year 2011 and 2010.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$2,118,039, which is higher than last year's total of \$2,032,176. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010. The District restated fund balance at June 30, 2010 as described in Note 3.B.

	Fund Balance <u>June 30, 2011</u>	Restated Fund Balance <u>June 30, 2010</u>	Increase (Decrease)
General	\$ 1,534,529	\$ 1,722,161	\$ (187,632)
Other governmental	<u>583,510</u>	<u>310,015</u>	<u>273,495</u>
Total	<u>\$ 2,118,039</u>	<u>\$ 2,032,176</u>	<u>\$ 85,863</u>

General Fund

The District's general fund's fund balance decreased by \$187,632. This decrease is primarily the result of a decrease in intergovernmental revenues along with a slight increase in support services during fiscal year 2011.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2011</u> <u>Amount</u>	<u>Restated</u> <u>2010</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 3,981,902	\$ 3,977,979	0.10 %
Tuition	333,717	324,007	3.00 %
Earnings on investments	5,465	2,991	82.71 %
Intergovernmental	4,500,587	4,651,539	(3.25) %
Other revenues	<u>130,995</u>	<u>112,291</u>	16.66 %
Total	<u>\$ 8,952,666</u>	<u>\$ 9,068,807</u>	(1.28) %
<u>Expenditures</u>			
Instruction	\$ 5,452,214	\$ 5,401,887	0.93 %
Support services	3,405,844	3,327,037	2.37 %
Operation of non-instructional services	1,367	617	121.56 %
Extracurricular activities	244,807	238,412	2.68 %
Facilities acquisition and construction	<u>2,462</u>	<u>189</u>	1,202.65 %
Total	<u>\$ 9,106,694</u>	<u>\$ 8,968,142</u>	1.54 %

While percentage changes for earnings on investments, operation of non-instructional services and facilities acquisition and construction were significant, the change in dollars was immaterial. Other revenue increased 16.66% mainly due to an increase in contributions and donations. All other revenues and expenditures were comparable to the prior year.

General Fund Budgeting Highlights

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

During the course of fiscal year 2011, the District amended its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$8,812,905 and \$8,954,431 respectively. Actual revenues and other financing sources for fiscal year 2011 was \$8,954,904. This represents a \$473 increase over final budgeted revenues.

General fund original and final appropriations (appropriated expenditures and other financing uses) were \$9,520,738. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$9,082,516 which was \$438,222 less than the final budget appropriations.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$1,802,766 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure, textbooks and construction in progress. The entire amount is reported in governmental activities. The following table shows fiscal year 2011 balances compared to 2010:

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

Governmental Activities

	2011	2010
Land	\$ 51,970	\$ 51,970
Construction in progress	55,522	29,997
Land improvements	161,683	140,319
Building and improvements	878,744	974,736
Furniture and equipment	284,009	290,165
Vehicles	301,574	281,586
Infrastructure	15,589	16,139
Textbooks	53,675	56,640
Total	\$ 1,802,766	\$ 1,841,552

Total additions to capital assets for 2011 were \$282,340. Disposals to capital assets for 2011 were \$165,603 (net of accumulated depreciation). Depreciation expense for fiscal 2011 was \$155,523. Overall, capital assets of the District decreased \$38,786. See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2011, the District had \$226,850 in energy conservation notes and sewer improvement bonds outstanding. Of this total, \$57,000 is due within one year and \$169,850 is due in more than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Sewer improvement bonds	\$ 121,500	\$ -
Energy conservation notes	105,350	132,850
Total	\$ 226,850	\$ 132,850

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Current Financial Related Activities

The District continues to receive strong support from the residents of the District. As the preceding information shows, the District relies heavily on its local property taxpayers. The last new operating levy passed by the residents of the District was in August, 1999, with the promise that the revenue generated by a levy would provide sufficient funding for four years. The Board of Education replaced a 7.4 mill operating levy in November 2004 and a 4.8 mill operating levy in November 2005. In November 2006, the Board of Education replaced a 3.0 mills continuing operating levy.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$110,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 39% of revenues for governmental activities for the Hillsdale Local School District in fiscal year 2011.

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

Effective July 1, 2011, with the biennial budget, State revenue is not anticipated to grow. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

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

Contacting the District's Financial Management

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2011

		<u>Governmental Activities</u>
Assets:		
Equity in pooled cash and cash equivalents.	\$	2,148,291
Cash with fiscal agent		1,138,044
Receivables:		
Taxes		3,921,440
Accounts		6,820
Intergovernmental		46,070
Prepayments		120,410
Materials and supplies inventory.		23,139
Inventory held for resale		10,433
Capital assets:		
Land and construction in progress.		107,492
Depreciable capital assets, net.		1,695,274
Capital assets, net		<u>1,802,766</u>
 Total assets.		 <u>9,217,413</u>
 Liabilities:		
Accounts payable.		6,107
Accrued wages and benefits		1,119,859
Pension obligation payable.		208,545
Intergovernmental payable		29,885
Claims payable.		257,740
Unearned revenue		2,585,516
Accrued interest payable		724
Long-term liabilities:		
Due within one year.		456,659
Due in more than one year.		973,289
 Total liabilities		 <u>5,638,324</u>
 Net assets:		
Invested in capital assets, net of related debt.		1,697,416
Restricted for:		
Capital projects		267,693
Locally funded programs		545
Federally funded programs		12,538
Student activities		37,081
Other purposes		37,662
Unrestricted		<u>1,526,154</u>
 Total net assets	 \$	 <u><u>3,579,089</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 4,929,008	\$ 368,267	\$ 85,245	\$ (4,475,496)
Special	661,732	2,094	398,641	(260,997)
Vocational	432,023	-	64,996	(367,027)
Other	232,794	-	232,794	-
Support services:				
Pupil.	619,247	-	153,754	(465,493)
Instructional staff	401,061	-	74,835	(326,226)
Board of education	37,951	-	-	(37,951)
Administration.	876,786	-	69,325	(807,461)
Fiscal.	331,708	-	150	(331,558)
Operations and maintenance	679,232	-	1,118	(678,114)
Pupil transportation.	854,943	-	37,988	(816,955)
Central	6,825	-	6,825	-
Operation of non-instructional services:				
Other non-instructional services	1,966	-	551	(1,415)
Food service operations	369,290	212,792	180,958	24,460
Extracurricular activities.	436,563	234,032	-	(202,531)
Interest and fiscal charges	6,586	-	-	(6,586)
Total governmental activities	<u>\$ 10,877,715</u>	<u>\$ 817,185</u>	<u>\$ 1,307,180</u>	<u>(8,753,350)</u>

General revenues:

Property taxes levied for:	
General purposes	3,994,611
Capital projects	247,444
Grants and entitlements not restricted	
to specific programs	4,244,287
Investment earnings	34,117
Miscellaneous	140,342
Total general revenues	<u>8,660,801</u>
Change in net assets	(92,549)
Net assets at beginning of year.	<u>3,671,638</u>
Net assets at end of year	<u>\$ 3,579,089</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,578,940	\$ 569,351	\$ 2,148,291
Receivables:			
Taxes	3,683,921	237,519	3,921,440
Accounts	5,301	1,519	6,820
Intergovernmental	6,169	39,901	46,070
Interfund loans	13,738	-	13,738
Prepayments	115,905	4,505	120,410
Materials and supplies inventory	21,905	1,234	23,139
Inventory held for resale	-	10,433	10,433
Total assets	\$ 5,425,879	\$ 864,462	\$ 6,290,341
Liabilities:			
Accounts payable	\$ 5,632	\$ 475	\$ 6,107
Accrued wages and benefits.	1,062,039	57,820	1,119,859
Compensated absences payable	63,371	-	63,371
Pension obligation payable	190,510	18,035	208,545
Interfund loans payable.	-	13,738	13,738
Intergovernmental payable	28,591	1,294	29,885
Deferred revenue	225,411	24,707	250,118
Unearned revenue.	2,315,796	149,310	2,465,106
Pollution remediation obligation	-	15,573	15,573
Total liabilities.	3,891,350	280,952	4,172,302
Fund balances:			
Nonspendable:			
Materials and supplies inventory.	21,905	11,667	33,572
Prepays.	115,905	4,505	120,410
Restricted:			
Capital improvements	-	266,141	266,141
Food service operations	-	32,359	32,359
Special education	-	2,222	2,222
Other purposes.	-	545	545
Extracurricular.	-	37,081	37,081
Committed:			
Capital improvements	-	229,600	229,600
Assigned:			
Student instruction	9,553	-	9,553
Student and staff support.	37,042	-	37,042
Non-instructional services	14	-	14
Unassigned (deficit)	1,350,110	(610)	1,349,500
Total fund balances	1,534,529	583,510	2,118,039
Total liabilities and fund balances	\$ 5,425,879	\$ 864,462	\$ 6,290,341

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances		\$	2,118,039
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,802,766
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Intergovernmental receivable	\$	13,954	
Delinquent property taxes receivable		236,164	
Total			250,118
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			759,894
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation notes		(105,350)	
Compensated absences payable		(897,375)	
Sewer improvement bonds		(121,500)	
Pollution remediation obligation		(226,779)	
Accrued interest payable		(724)	
Total			(1,351,728)
Net assets of governmental activities		\$	3,579,089

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 3,981,902	\$ 243,107	\$ 4,225,009
Tuition	333,717	-	333,717
Charges for services	-	212,792	212,792
Earnings on investments	5,465	22	5,487
Extracurricular	-	234,032	234,032
Classroom materials and fees	36,644	-	36,644
Contributions and donations	29,830	45,730	75,560
Other local revenues	64,521	1,250	65,771
Intergovernmental - intermediate	-	789	789
Intergovernmental - state	4,499,167	65,484	4,564,651
Intergovernmental - federal	1,420	991,660	993,080
Total revenues	<u>8,952,666</u>	<u>1,794,866</u>	<u>10,747,532</u>
Expenditures:			
Current:			
Instruction:			
Regular	4,535,346	86,557	4,621,903
Special	462,916	184,085	647,001
Vocational	453,952	4,003	457,955
Other	-	232,794	232,794
Support services:			
Pupil	470,539	147,664	618,203
Instructional staff	330,158	62,713	392,871
Board of education	34,401	-	34,401
Administration	813,727	59,482	873,209
Fiscal	326,675	4,557	331,232
Operations and maintenance	648,885	959	649,844
Pupil transportation	781,459	74,777	856,236
Central	-	6,825	6,825
Operation of non-instructional services:			
Food service operations	-	370,477	370,477
Other non-instructional services	1,367	599	1,966
Extracurricular activities	244,807	202,398	447,205
Facilities acquisition and construction	2,462	204,656	207,118
Debt service:			
Principal retirement	-	41,000	41,000
Interest and fiscal charges	-	6,429	6,429
Total expenditures	<u>9,106,694</u>	<u>1,689,975</u>	<u>10,796,669</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(154,028)</u>	<u>104,891</u>	<u>(49,137)</u>
Other financing sources (uses):			
Sale of bonds	-	135,000	135,000
Transfers in	-	47,429	47,429
Transfers (out)	<u>(33,604)</u>	<u>(13,825)</u>	<u>(47,429)</u>
Total other financing sources (uses)	<u>(33,604)</u>	<u>168,604</u>	<u>135,000</u>
Net change in fund balances	(187,632)	273,495	85,863
Fund balances at beginning of year (restated).	<u>1,722,161</u>	<u>310,015</u>	<u>2,032,176</u>
Fund balances at end of year.	<u>\$ 1,534,529</u>	<u>\$ 583,510</u>	<u>\$ 2,118,039</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds	\$	85,863
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		
Capital asset additions	\$ 282,340	
Current year depreciation	<u>(155,523)</u>	
Total		126,817
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(165,603)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	17,046	
Intergovernmental	<u>(4,491)</u>	
Total		12,555
An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(86,897)
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
Sewer improvement bonds	13,500	
Energy conservation notes	<u>27,500</u>	
Total		41,000
Issuance of bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net assets.		
		(135,000)
In the statement of activities, interest is accrued on outstanding notes and bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		(157)
Some expenses reported in the statement of activities, such as compensated absences and pollution remediation obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>28,873</u>
Change in net assets of governmental activities	\$	<u>(92,549)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,930,000	\$ 4,036,115	\$ 4,036,115	\$ -
Tuition	325,000	333,717	333,717	-
Earnings on investments	5,000	5,120	5,465	345
Classroom materials and fees	15,000	15,055	15,055	-
Contributions and donations	1,000	26,131	26,131	-
Other local revenues	5,400	8,192	8,320	128
Intergovernmental - state	4,499,980	4,499,167	4,499,167	-
Intergovernmental - federal	5,000	2,342	2,342	-
Total revenues	<u>8,786,380</u>	<u>8,925,839</u>	<u>8,926,312</u>	<u>473</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,531,362	4,531,362	4,505,119	26,243
Special	482,082	482,082	468,148	13,934
Vocational	419,683	419,683	413,529	6,154
Support services:				
Pupil	442,621	442,621	436,290	6,331
Instructional staff	331,002	331,002	328,261	2,741
Board of education	44,132	44,132	36,144	7,988
Administration	823,823	823,823	810,241	13,582
Fiscal	335,849	335,849	330,565	5,284
Operations and maintenance	753,999	753,999	683,847	70,152
Pupil transportation	794,473	794,473	779,443	15,030
Operation of non-instructional services	1,475	1,475	1,381	94
Extracurricular activities	243,382	243,382	239,744	3,638
Facilities acquisition and construction	2,500	2,500	2,462	38
Total expenditures	<u>9,206,383</u>	<u>9,206,383</u>	<u>9,035,174</u>	<u>171,209</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(420,003)</u>	<u>(280,544)</u>	<u>(108,862)</u>	<u>171,682</u>
Other financing sources (uses):				
Refund of prior year's expenditures	2,000	3,345	3,345	-
Transfers (out)	(33,605)	(33,605)	(33,604)	1
Advances in	24,025	24,023	24,023	-
Advances (out)	(13,800)	(13,800)	(13,738)	62
Contingencies	(266,950)	(266,950)	-	266,950
Sale of capital assets	500	1,224	1,224	-
Total other financing sources (uses)	<u>(287,830)</u>	<u>(285,763)</u>	<u>(18,750)</u>	<u>267,013</u>
Net change in fund balance	(707,833)	(566,307)	(127,612)	438,695
Fund balance at beginning of year	1,456,300	1,456,300	1,456,300	-
Prior year encumbrances appropriated	192,804	192,804	192,804	-
Fund balance at end of year	<u>\$ 941,271</u>	<u>\$ 1,082,797</u>	<u>\$ 1,521,492</u>	<u>\$ 438,695</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 1,138,044
Total assets.	<u>1,138,044</u>
Liabilities:	
Claims payable	257,740
Unearned revenue	<u>120,410</u>
Total liabilities	<u>378,150</u>
Net assets:	
Unrestricted.	<u>759,894</u>
Total net assets	<u>\$ 759,894</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 1,365,476
Total operating revenues	<u>1,365,476</u>
Operating expenses:	
Contractual services	477,373
Claims	<u>1,003,630</u>
Total operating expenses	<u>1,481,003</u>
Operating loss	<u>(115,527)</u>
Nonoperating revenues:	
Interest revenue	28,630
Total nonoperating revenues	<u>28,630</u>
Change in net assets	(86,897)
Net assets at beginning of year	<u>846,791</u>
Net assets at end of year	<u>\$ 759,894</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,361,578
Cash payments for contractual services.	(477,373)
Cash payments for claims	(963,321)
	(79,116)
Net cash used in operating activities	(79,116)
Cash flows from investing activities:	
Interest received	28,630
	28,630
Net cash provided by investing activities	28,630
Net decrease in cash with fiscal agent	(50,486)
Cash with fiscal agent at beginning of year . . .	1,188,530
Cash with fiscal agent at end of year	\$ 1,138,044
	1,138,044
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (115,527)
Changes in liabilities:	
Decrease in unearned revenue.	(3,898)
Increase in claims payable	40,309
	36,411
Net cash used in operating activities	\$ (79,116)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 8,394	\$ 24,151
Total assets.	8,394	\$ 24,151
Liabilities:		
Accounts payable.	-	\$ 20
Due to students.	-	24,131
Total liabilities	-	\$ 24,151
Net assets:		
Held in trust for scholarships	8,394	
Total net assets	\$ 8,394	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 9
Total additions.	9
Change in net assets.	9
Net assets at beginning of year	8,385
Net assets at end of year.	\$ 8,394

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Hillsdale Local School District (the "District") was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members and is responsible for providing public education to residents of the District.

The District ranks as the 465th largest by enrollment among the 918 public school districts and community schools in the State. The District employs 47 non-certified and 79 certified full-time and part-time employees to provide services to 1,050 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities and proprietary fund provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Tri-County Computer Service Association

The Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic technology for administrative and instructional functions for member school districts. Each of the governments of these school districts supports TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. TCCSA is governed by a Board of Directors chosen from the general membership of the TCCSA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating school districts are located. Financial information can be obtained by contacting the treasurer at Tri-County Educational Services Center, which serves as fiscal agent, located in Wooster, Ohio. During the fiscal year ended June 30, 2011, the District paid \$84,895 to TCCSA.

Ashland County - West Holmes Career Center

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

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Educational Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing insurance. OME-RESA is governed by a Board of Directors consisting of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Ohio School Plan

The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the OSP to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district's superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

PROPRIETARY FUND

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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

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

The private purpose trust fund is reported using the economic resources measurement focus. The agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use 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 Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2011 are recorded as deferred revenue in the governmental funds.

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

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

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

E. Budgets

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures 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 for all funds. The treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund budgetary statement comparison at the fund and function level.

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

F. Cash and Investments

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

During fiscal year 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes, all investment earnings are assigned to the general fund, unless statutorily required to be credited to a specific fund or by Board resolution. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$5,465, which includes \$1,171 assigned from other District funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$3,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 50 years
Buildings and improvements	5 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 20 years
Infrastructure	5 - 50 years
Textbooks	20 years

I. Interfund Balances

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

J. Compensated Absences

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

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the 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 classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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 District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the 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 District for specific purposes but do not meet the criteria to be classified as restricted nor 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 policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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.

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Interfund Activity

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

Q. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had no restricted assets at June 30, 2011.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 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. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 1,674,717	\$ 357,459	\$ 2,032,176
Fund reclassifications:			
Uniform school supplies	17,110	(17,110)	-
Public school support fund	30,334	(30,334)	-
Total fund reclassifications	47,444	(47,444)	-
Restated fund balance at July 1, 2010	\$ 1,722,161	\$ 310,015	\$ 2,032,176

The fund reclassifications did not have an effect on net assets as previously reported.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Vocational education enhancement	\$ 15
Title I	299
Improving teacher quality	87

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash on Hand

At fiscal year end, the District had \$125 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent (See Note 10.D.). The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2011 was \$1,138,044. This represents the balance of the District's employee benefit self-insurance fund. This amount is not included in the "deposits" or "investments" reported below.

C. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$983,662. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$678,955 of the District's bank balance of \$1,063,977 was exposed to custodial risk as discussed below, while \$385,022 was covered by the FDIC.

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2011, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	<u>\$ 1,197,049</u>	<u>\$ 1,197,049</u>

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	<u>\$ 1,197,049</u>	<u>100.00</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 983,662
Investments	1,197,049
Cash with fiscal agent	1,138,044
Cash on hand	<u>125</u>
Total	<u>\$ 3,318,880</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,286,335
Private-purpose trust fund	8,394
Agency fund	<u>24,151</u>
Total	<u>\$ 3,318,880</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2011 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	<u>\$ 13,738</u>

The primary purpose of the interfund balance is to cover costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received. The interfund balance is expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B. Interfund transfers for the fiscal year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ 33,604
Nonmajor governmental fund	Nonmajor governmental fund	<u>13,825</u>
Total		<u>\$ 47,429</u>

The \$33,604 and \$13,825 transfers from the general fund and the nonmajor permanent improvement fund, respectively, were required to move resources to the debt service fund for retirement of the District's notes and bonds. Interfund transfers between governmental funds are eliminated on the statement of activities.

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. 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. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

The District receives property taxes from Ashland and Wayne Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$1,146,265 in the general fund and \$73,905 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$1,200,478 in the general fund and \$57,210 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent 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 unearned revenue.

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 128,707,340	88.20	\$ 129,654,410	88.21
Public utility personal	<u>17,211,510</u>	<u>11.80</u>	<u>17,336,220</u>	<u>11.79</u>
Total	<u>\$ 145,918,850</u>	<u>100.00</u>	<u>\$ 146,990,630</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$49.40		\$49.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the receivables on the statement of net assets follows:

Governmental activities:

Taxes	\$ 3,921,440
Accounts	6,820
Intergovernmental	<u>46,070</u>
Total	<u>\$ 3,974,330</u>

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 8 - CAPITAL ASSETS

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

Governmental activities:	Balance <u>July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2011</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 51,970	\$ -	\$ -	\$ 51,970
Construction in progress	<u>29,997</u>	<u>55,522</u>	<u>(29,997)</u>	<u>55,522</u>
Total capital assets, not being depreciated	<u>81,967</u>	<u>55,522</u>	<u>(29,997)</u>	<u>107,492</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	296,771	24,990	-	321,761
Buildings and improvements	2,755,804	90,846	(165,603)	2,681,047
Furniture and equipment	1,011,468	52,397	(5,005)	1,058,860
Vehicles	909,772	88,582	-	998,354
Infrastructure	24,257	-	-	24,257
Textbooks	<u>532,988</u>	<u>-</u>	<u>-</u>	<u>532,988</u>
Total capital assets, being depreciated	<u>5,531,060</u>	<u>256,815</u>	<u>(170,608)</u>	<u>5,617,267</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(156,452)	(3,626)	-	(160,078)
Buildings and improvements	(1,781,068)	(21,235)	-	(1,802,303)
Furniture and equipment	(721,303)	(58,553)	5,005	(774,851)
Vehicles	(628,186)	(68,594)	-	(696,780)
Infrastructure	(8,118)	(550)	-	(8,668)
Textbooks	<u>(476,348)</u>	<u>(2,965)</u>	<u>-</u>	<u>(479,313)</u>
Total accumulated depreciation	<u>(3,771,475)</u>	<u>(155,523)</u>	<u>5,005</u>	<u>(3,921,993)</u>
Governmental activities capital assets, net	<u>\$ 1,841,552</u>	<u>\$ 156,814</u>	<u>\$ (195,600)</u>	<u>\$ 1,802,766</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 54,362
Special	1,101
Vocational	1,000
<u>Support services:</u>	
Pupil	316
Instructional staff	3,375
Administration	2,252
Operations and maintenance	7,518
Pupil transportation	78,240
Extracurricular activities	6,256
Food service operations	<u>1,103</u>
Total depreciation expense	<u>\$ 155,523</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2011</u>	Amounts Due in <u>One Year</u>
2011 Sewer improvement bonds: \$135,000, 2.710% interest rate, matures December 1, 2015	\$ -	\$ 135,000	\$ (13,500)	\$ 121,500	\$ 27,000
2000 Energy conservation notes: \$287,000, 5.125% interest rate, matures December 31, 2013	132,850	-	(27,500)	105,350	30,000
Pollution remediation obligation	249,820	24,200	(31,668)	242,352	242,352
Compensated absences	<u>940,491</u>	<u>78,761</u>	<u>(58,506)</u>	<u>960,746</u>	<u>157,307</u>
Total governmental activities	<u>\$ 1,323,161</u>	<u>\$ 237,961</u>	<u>\$ (131,174)</u>	<u>\$ 1,429,948</u>	<u>\$ 456,659</u>

The energy conservation notes are direct obligations of the District for which its full faith, credit and resources are pledged. Proceeds from the notes were used for energy conservation improvements to school buildings. Principal and interest payments on the energy conservation notes are made from the debt service fund (a nonmajor governmental fund).

Compensated absences will be paid from the fund which the employees' salaries are paid which, for the District is the general fund and the following nonmajor governmental funds: the food service fund and the Title-I fund.

Principal and interest requirements to retire the energy conservation notes outstanding at June 30, 2011, are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Energy Conservation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 30,000	\$ 4,630	\$ 34,630
2013	35,000	2,965	37,965
2014	<u>40,350</u>	<u>1,034</u>	<u>41,384</u>
Total	<u>\$ 105,350</u>	<u>\$ 8,629</u>	<u>\$ 113,979</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

- B.** The District issued sewer improvement bonds on April 29, 2011. The sewer improvement bonds are direct obligations of the District for which its full faith, credit and resources are pledged. Proceeds of the bonds will be used for acquiring and constructing various sewer improvements at Hillsdale High School. Principal and interest payments on the sewer improvement bonds are made from the debt service fund (a nonmajor governmental fund). As of June 30, 2011, the District has not spent the bond proceeds.

Principal and interest requirements to retire the sewer improvement bonds outstanding at June 30, 2011, are as follows:

Fiscal Year Ending June 30	Sewer Improvement Bonds		
	Principal	Interest	Total
2012	\$ 27,000	\$ 3,110	\$ 30,110
2013	27,000	2,378	29,378
2014	27,000	1,646	28,646
2015	27,000	915	27,915
2016	<u>13,500</u>	<u>183</u>	<u>13,683</u>
Total	<u>\$ 121,500</u>	<u>\$ 8,232</u>	<u>\$ 129,732</u>

- C.** The pollution remediation obligation includes a liability for one project: the Water Pollution Control Act (ORC 6111), the District's wastewater treatment plant (WWTP) upgrade and repair.

The District estimates the cost of the project to be approximately \$274,020. The District has reported \$15,573 as a current liability in the permanent improvement fund (a nonmajor governmental fund). This liability is based on construction and engineering fees incurred during fiscal year 2011 and paid in fiscal year 2012. The District issued the sewer improvement bonds in fiscal year 2011 to finance a portion of the project. As of June 30, 2011, the District had not received any grant proceeds.

The EPA, through its testing procedures, determined that the current WWTP did not meet the standards of a Class A facility. Improvements or a replacement is required to get the facility to meet current efficient limitation requirements and to bring the sewage treatment facility to a Class A facility.

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$13,107,657 and an unvoted debt margin of \$146,991.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the District contracted for the following insurance coverage.

Coverage provided by the Ohio School Plan is as follows:

General Liability	
General Aggregate Limit	\$ 7,000,000
Blanket Property (\$1,000 deductible)	29,696,985
Vehicle Liability	5,000,000
Uninsured/Underinsured Motorists	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2011, the District participated in the Ohio School Plan (“the Plan”), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

B. Fidelity Bond

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

C. Workers’ Compensation

The District pays the State Workers’ Compensation System a premium based on a rate per \$100 of salaries. For fiscal year 2011, the District participated in the Ohio School Boards Association Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers’ compensation premium to the state based on the rate for the GRP rather than its individual rate.

Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - RISK MANAGEMENT - (Continued)

D. Employee Health Insurance

Medical/surgical, prescription, vision and dental insurance is offered to employees through a self-insurance program. The District has established a self-insurance internal service fund to account for this activity. The District is a member of the OME-RESA Health Benefits Program, a partially self-insured consortium of public employers in Ohio. The consortium has over 100 member organizations participating. Monthly accruals are paid to a custodian bank, U.S. Bank, acting as trustee on behalf of the fiscal agent. The trustees disburse payments to vendors for services rendered and to satisfy claim reimbursements for covered plan participants. The Jefferson County ESC acts in the role of fiscal agent for the consortium.

The claims liability of \$257,740 reported in the internal service fund at June 30, 2011 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2011	\$ 217,431	\$ 1,003,630	\$ (963,321)	\$ 257,740
2010	287,435	737,017	(807,021)	217,431

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 11 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$123,608, \$134,452 and \$91,364, respectively; 62.01 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org, under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 11 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$606,901, \$598,300 and \$585,535, respectively; 83.16 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$18,067 made by the District and \$12,905 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports*".

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 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$35,667, \$25,124 and \$60,715, respectively; 62.01 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010 and 2009 were \$7,954, \$7,996 and \$7,538, respectively; 62.01 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$46,685, \$46,023 and \$45,041, respectively; 83.16 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (127,612)
Net adjustment for revenue accruals	(53,774)
Net adjustment for expenditure accruals	(6,212)
Net adjustment for other sources/uses	(14,854)
Funds budgeted elsewhere*	(4,853)
Adjustment for encumbrances	19,673
GAAP basis	\$ (187,632)

*Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund and the public school support fund.

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not involved in material litigation as either plaintiff or defendant at June 30, 2011.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 15 - SET-ASIDES

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	163,171	163,171
Current year qualifying expenditures	(222,781)	(70,611)
Excess qualified expenditures from prior years	(645,349)	-
Current year offsets	<u>-</u>	<u>(256,894)</u>
Total	<u>\$ (704,959)</u>	<u>\$ (164,334)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 16 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 19,447
Other governmental	<u>397,193</u>
 Total	 <u>\$ 416,640</u>

NOTE 17 - CONTRACTUAL COMMITMENTS

As a result of the pollution remediation obligations (See Note 9.C), the District had the following outstanding contractual commitments at June 30, 2011:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Amount Outstanding</u>
D.C. Berger Excavating, LLC.	\$ 234,520	\$ -	\$ 234,520
MKC Associates, Inc.	<u>39,500</u>	<u>31,668</u>	<u>7,832</u>
 Total Contractual Commitments	 <u>\$ 274,020</u>	 <u>\$ 31,668</u>	 <u>\$ 242,352</u>

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

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

Federal Grantor/ Passed Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>(Passed through the Ohio Department of Education)</i>						
Child Nutrition Cluster:						
National School Lunch Program	10.555	N/A	\$153,524	\$23,272	\$153,524	\$23,272
Total Child Nutrition Cluster/U.S. Department of Agriculture			153,524	23,272	153,524	23,272
U.S. Department of Education						
<i>(Passed through the Ohio Department of Education)</i>						
Title I Cluster:						
Title I Grants to Local Educational Agencies	84.010	2010	6,475		20,586	
		2011	104,062		103,939	
Total Title I Grants to Local Educational Agencies			110,537		124,525	
ARRA - Title I Grants to Local Educational Agencies	84.389	2010	(633)		0	
		2011	51,898		51,898	
Total ARRA Title I Grants to Local Educational Agencies			51,265		51,898	
Total Title I Cluster			161,802		176,423	
Special Education Cluster:						
Special Education_Grants to States	84.027	2010	20,214		6,524	
		2011	191,094		188,868	
Total Special Education_Grants to States			211,308		195,392	
ARRA - Special Education Grants to States	84.391	2010	(5,154)		0	
		2011	55,940		55,940	
Total ARRA - Special Education Grants to States			50,786		55,940	
Total Special Education Cluster			262,094		251,332	
Safe and Drug-Free Schools and Communities_State Grants	84.186	2010	1,948		1,948	
Education Technology State Grants	84.318	2011	1,412		1,412	
Improving Teacher Quality State Grants	84.367	2010	1,695		1,695	
		2011	32,464		32,464	
Total Improving Teacher Quality State Grants			34,159		34,159	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	2011	301,968		301,968	
Total U.S. Department of Education			763,383		767,242	
Totals			\$916,907	\$23,272	\$920,766	\$23,272

The Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this schedule.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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 Receipts and Expenditures Schedule (the Schedule) reports the Hillsdale Local School District, Ashland County, Ohio, (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 entitlement 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

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland 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 December 19, 2011, wherein we noted the District restated its governmental funds' fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54. 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

We did not certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 19, 2011.

We intend this report solely for the information and use of management, the Board of Education, 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

December 19, 2011



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

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

To the Board of Education:

Compliance

We have audited the compliance of the Hillsdale Local School District, Ashland 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 Hillsdale Local School District's major federal program 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 program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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*. Those 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 those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Hillsdale Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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.

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.

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

We noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated December 19, 2011.

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



Dave Yost
Auditor of State

December 19, 2011

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	ARRA – State Fiscal Stabilization Fund, CFDA 84.394
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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-HLSD-001	Significant Deficiency – Financial Reporting - The District inadvertently reported \$132,789 in property tax receipts and \$18,443 in homestead and rollback Receipts in the General Fund rather than the Permanent Improvement Fund.	Yes	Finding No Longer Valid



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

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 Hillsdale Local 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 did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 19, 2011

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HILLSDALE LOCAL SCHOOL DISTRICT

ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 3, 2012