



Dave Yost • Auditor of State

HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, Ohio, as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparisons for the General fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedules 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 schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014

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Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The discussion and analysis of Hillsboro City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

- The assets of the Hillsboro City School District exceeded its liabilities at June 30, 2013 by \$55,275,594. Of this amount, \$4,348,830 may be used to meet the School District's ongoing financial obligations. The remaining amount represents net investment in capital assets and net position amounts restricted for specific purposes.
- The School District's net position decreased \$333,239.
- Governmental activities general revenues accounted for \$21,514,029 of total revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$5,529,024 of total governmental revenues of \$27,043,053.
- The School District had \$27,376,292 in expenses related to governmental activities; only \$5,529,024 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest. General revenues (primarily grants, entitlements, income taxes and property taxes) of \$21,514,029 were used to provide for these programs along with unrestricted net position from prior fiscal years.

Using the Basic Financial Statements

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

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

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2013?” The Statement of Net Position and the Statement of Activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

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

Reporting the School District’s Most Significant Funds

Fund Financial Statements

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

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

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

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The School District as a Whole

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

Table 1 provides a summary of the School District's net position for fiscal years 2013 and 2012:

(Table 1)
Net Position
Governmental Activities

	2013	2012	Change in Net Position
Assets:			
Current and Other Assets	\$18,431,220	\$18,080,741	\$350,479
Capital Assets, Net	56,545,708	58,134,226	(1,588,518)
Total Assets	<u>74,976,928</u>	<u>76,214,967</u>	<u>(1,238,039)</u>
Deferred Outflows of Resources	<u>122,220</u>	<u>130,368</u>	<u>(8,148)</u>
Liabilities:			
Other Liabilities	2,263,866	2,787,988	(524,122)
Long-Term Liabilities	11,766,769	12,182,954	(416,185)
Total Liabilities	<u>14,030,635</u>	<u>14,970,942</u>	<u>(940,307)</u>
Deferred Inflows of Resources	<u>5,792,919</u>	<u>5,765,560</u>	<u>27,359</u>
Net Position:			
Net Investment in Capital Assets	45,958,563	47,147,418	(1,188,855)
Restricted	4,968,201	4,586,368	381,833
Unrestricted	4,348,830	3,875,047	473,783
Total Net Position	<u><u>\$55,275,594</u></u>	<u><u>\$55,608,833</u></u>	<u><u>(\$333,239)</u></u>

Capital assets decreased \$1,588,518, due primarily to depreciation exceeding additions. This also resulted in a decrease in invested in capital assets, net of related debt.

Long-Term liabilities decreased as a result of the School District making current year debt payments. Other liabilities decreased due to the completion of the early retirement incentive program.

Restricted and Unrestricted net position increased \$381,833 and \$473,783, respectively. This was due mostly to cash increasing as a result of the School District monitoring expenditures closely.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 2 shows the changes in net position for fiscal years 2013 and 2012.

(Table 2)
Changes in Net Position
Governmental Activities

	2013	2012	Change
Revenues:			
Program Revenues:			
Charges for Services and Sales	\$1,841,272	\$1,811,821	\$29,451
Operating Grants, Contributions and Interest	3,570,822	4,848,762	(1,277,940)
Capital Grants and Contributions	116,930	19,000	97,930
Total Program Revenues	<u>5,529,024</u>	<u>6,679,583</u>	<u>(1,150,559)</u>
General Revenues:			
Property Taxes	6,392,142	6,361,033	31,109
Income Taxes	2,352,161	2,327,552	24,609
Grants and Entitlements not Restricted to Specific Programs	12,500,036	12,077,922	422,114
Gifts and Donations	14,094	13,642	452
Interest	58,892	58,897	(5)
Miscellaneous	196,704	324,599	(127,895)
Total General Revenues	<u>21,514,029</u>	<u>21,163,645</u>	<u>350,384</u>
Total Revenues	<u>27,043,053</u>	<u>27,843,228</u>	<u>(800,175)</u>
Program Expenses:			
Instruction	15,034,873	15,225,004	(190,131)
Support Services:			
Pupils and Instructional Staff	3,888,061	3,127,222	760,839
Board of Education, Administration, Fiscal and Business	2,177,584	3,082,260	(904,676)
Operations and Maintenance of Plant	1,959,042	2,086,340	(127,298)
Pupil Transportation	1,792,521	1,639,666	152,855
Central	40,941	118,977	(78,036)
Operation of Non-Instructional Services	1,263,151	1,216,030	47,121
Extracurricular Activities	654,830	626,461	28,369
Interest and Fiscal Charges	565,289	482,548	82,741
Total Expenses	<u>27,376,292</u>	<u>27,604,508</u>	<u>(228,216)</u>
Special Item - Repayment of interest to the Ohio School Facilities Commission	0	(727,673)	727,673
Change in Net Position	(333,239)	(488,953)	155,714
Net Position at Beginning of Year	<u>55,608,833</u>	<u>56,097,786</u>	<u>(488,953)</u>
Net Position at End of Year	<u>\$55,275,594</u>	<u>\$55,608,833</u>	<u>(\$333,239)</u>

Program revenues, which are primarily represented by tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues, were \$5,529,024 of total revenues for fiscal year 2013 and varied significantly from fiscal year 2012. This was primarily the result of the School District receiving significantly less grant revenue than the prior year with the largest being the loss of the education jobs grant. Capital grants and contributions increased due to the School District receiving more contributions and donations than the prior year.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The School District remains heavily reliant on State funding. Grants and entitlements not restricted for specific purposes made up \$12,500,036 of revenues for governmental activities. The large increase from the prior year was a result of an increase in enrollment in fiscal year 2013.

Instruction comprises \$15,034,873 of governmental activities program expenses. Support service expenses make up \$9,858,149 of governmental activities expenses. There were significant increases in pupils and instructional staff expenditures when compared to fiscal year 2012 as a result of the increase in enrollment. The large decreases in fiscal expenditures were a result of the School District completing the early retirement incentive program in the prior fiscal year.

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

The School District's Funds

Information about the School District's major funds starts on page 10. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$27,095,469 and expenditures of \$26,423,513. The net change in fund balance for the general fund increased \$172,624. This was due mostly to receiving greater intergovernmental revenues as a result of an increase in overall state funding.

The Debt Service Fund saw an increase of \$195,709. This is a result of the School District collecting more property tax revenues than what was required to meet its annual debt obligations.

General Fund - Budget Highlights

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

During the course of fiscal year 2013, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 14, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, the original budget basis revenue was \$22,836,383 with a final budget estimate of \$22,377,611. The decrease of \$458,772 was primarily due to a decrease in property tax and income tax revenues offset by decreases in intergovernmental revenues. Actual revenues were slightly higher than the final budget estimates.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Original budget basis appropriations were \$22,454,437 with final budget basis appropriations of \$22,230,457. The variance of \$223,980 was due to overall decreases in expenditures. The School District's actual expenditures were \$41,383 below final budget estimates due mainly to decreases in support services, which was insignificant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School District had \$45,958,563 invested in capital assets (net of accumulated depreciation), a decrease of \$1,188,855. This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles and textbooks. Net capital assets decreased \$1,588,518 from the prior fiscal year. This was due to depreciation expense for the current fiscal year being significantly larger than additions. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2013, the School District had \$10,099,549 in bonds outstanding, \$480,000 of which is due within one year. Table 3 summarizes bonds outstanding at fiscal year-end 2013 and 2012:

(Table 3)
 Outstanding Debt, at Fiscal Year-End

	2012	2013
General Obligation Bonds:		
School Improvement Bonds	\$4,490,000	\$4,380,000
School Improvement Refunding Bonds	5,775,000	5,420,000
Premium on Debt Issue	228,656	214,365
Accretion on Capital Appreciation Bonds	42,870	85,184
Total	\$10,536,526	\$10,099,549

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

Contacting the School District's Financial Management

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

Hillsboro City School District

Statement of Net Position

June 30, 2013

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$10,345,807
Inventory Held for Resale	12,611
Materials and Supplies Inventory	1,069
Accrued Interest Receivable	11,421
Accounts Receivable	26,808
Intergovernmental Receivable	418,323
Property Taxes Receivable	6,619,032
Income Taxes Receivable	996,149
Capital Assets:	
Land and Construction in Progress	775,073
Depreciable Capital Assets, Net	<u>55,770,635</u>
<i>Total Assets</i>	<u>74,976,928</u>
 <u>Deferred Outflows of Resources</u>	
Deferred Charge on Refunding	<u>122,220</u>
 <u>Liabilities:</u>	
Accounts Payable	52,358
Accrued Wages and Benefits Payable	1,843,846
Intergovernmental Payable	334,357
Accrued Interest Payable	33,305
Long-Term Liabilities:	
Due Within One Year	659,246
Due In More Than One Year	<u>11,107,523</u>
<i>Total Liabilities</i>	<u>14,030,635</u>
 <u>Deferred Inflows of Resources</u>	
Property Taxes	<u>5,792,919</u>
 <u>Net Position:</u>	
Net Investment in Capital Assets	45,958,563
Restricted for:	
Debt Service	1,959,135
Capital Projects	1,011,389
Other Purposes	1,992,569
Library Materials and Service:	
Expendable	105
Nonexpendable	5,003
Unrestricted	<u>4,348,830</u>
<i>Total Net Position</i>	<u><u>\$55,275,594</u></u>

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$12,111,362	\$1,066,176	\$217,258	\$0	(\$10,827,928)
Special	2,158,059	186,329	1,026,734	0	(944,996)
Vocational	763,240	79,855	140,621	0	(542,764)
Student Intervention Services	2,212	0	0	0	(2,212)
Support Services:					
Pupils	1,007,897	0	0	0	(1,007,897)
Instructional Staff	2,880,164	0	1,118,409	0	(1,761,755)
Board of Education	38,732	0	0	0	(38,732)
Administration	2,036,284	0	61,103	0	(1,975,181)
Fiscal	92,710	0	0	0	(92,710)
Business	9,858	0	0	0	(9,858)
Operation and Maintenance of Plant	1,959,042	8,427	0	116,930	(1,833,685)
Pupil Transportation	1,792,521	0	24,855	0	(1,767,666)
Central	40,941	0	9,000	0	(31,941)
Operation of Non-Instructional Services:					
Food Service Operations	1,120,667	332,372	877,830	0	89,535
Other	142,484	0	72,155	0	(70,329)
Extracurricular Activities	654,830	168,113	22,857	0	(463,860)
Interest and Fiscal Charges	565,289	0	0	0	(565,289)
Total Governmental Activities	\$27,376,292	\$1,841,272	\$3,570,822	\$116,930	(21,847,268)
<u>General Revenues:</u>					
Property Taxes Levied for:					
General Purposes					5,317,859
Debt Service					963,501
Facility Maintenance					110,782
Income Taxes					2,352,161
Grants and Entitlements not Restricted to Specific Programs					12,500,036
Contributions and Donations					14,094
Investment Earnings					58,892
Miscellaneous					196,704
Total General Revenues					21,514,029
Change in Net Position					(333,239)
Net Position at Beginning of Year					55,608,833
Net Position at End of Year					\$55,275,594

See accompanying notes to the basic financial statements

Hillsboro City School District

Balance Sheet
Governmental Funds
June 30, 2013

	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,449,569	\$1,868,367	\$2,863,071	\$10,181,007
Receivables:				
Property Taxes	5,515,480	988,319	115,233	6,619,032
Income Taxes	996,149	0	0	996,149
Accounts	26,808	0	0	26,808
Intergovernmental	63,179	0	355,144	418,323
Accrued Interest	11,421	0	0	11,421
Interfund	10,069	0	0	10,069
Materials and Supplies Inventory	0	0	1,069	1,069
Inventory Held for Resale	0	0	12,611	12,611
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	164,800	0	0	164,800
Advances to Other Funds	15,000	0	0	15,000
<i>Total Assets</i>	<u>\$12,252,475</u>	<u>\$2,856,686</u>	<u>\$3,347,128</u>	<u>\$18,456,289</u>
<u>Liabilities:</u>				
Accounts Payable	\$50,552	\$0	\$1,806	\$52,358
Accrued Wages and Benefits Payable	1,655,057	0	188,789	1,843,846
Intergovernmental Payable	304,532	0	29,825	334,357
Interfund Payable	0	0	10,069	10,069
Advances from Other Funds	0	0	15,000	15,000
<i>Total Liabilities</i>	<u>2,010,141</u>	<u>0</u>	<u>245,489</u>	<u>2,255,630</u>
<u>Deferred Inflows of Resources</u>				
Property Taxes	4,827,990	864,246	100,683	5,792,919
Unearned Revenue	661,668	89,564	261,986	1,013,218
<i>Total Deferred Inflows of Resources</i>	<u>5,489,658</u>	<u>953,810</u>	<u>362,669</u>	<u>6,806,137</u>
<u>Fund Balances:</u>				
Nonspendable	15,000	0	6,069	21,069
Restricted	88,848	1,902,876	2,792,397	4,784,121
Committed	335,944	0	0	335,944
Assigned	259,842	0	0	259,842
Unassigned (Deficit)	4,053,042	0	(59,496)	3,993,546
<i>Total Fund Balances</i>	<u>4,752,676</u>	<u>1,902,876</u>	<u>2,738,970</u>	<u>9,394,522</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$12,252,475</u>	<u>\$2,856,686</u>	<u>\$3,347,128</u>	<u>\$18,456,289</u>

See accompanying notes to the basic financial statements

Hillsboro City School District
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2013

Total Governmental Fund Balances \$9,394,522

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

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

Land	555,964	
Construction in progress	219,109	
Other capital assets	71,503,027	
Accumulated depreciation	<u>(15,732,392)</u>	
Total capital assets		56,545,708

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

Delinquent property taxes	598,439	
Income taxes	151,960	
Intergovernmental	251,398	
Investment earnings	<u>11,421</u>	
		1,013,218

Deferred outflows of resources include deferred charges on refunding which do not provide current financial resources and, therefore are not reported in the funds. 122,220

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (33,305)

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

General Obligation Bonds payable	(9,800,000)	
Premium on debt issuance	(214,365)	
Accretion on capital appreciation bonds	(85,184)	
Capital leases	(695,000)	
Compensated absences	<u>(972,220)</u>	
Total liabilities		<u>(11,766,769)</u>

Net Position of Governmental Activities \$55,275,594

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$5,264,808	\$957,010	\$109,698	\$6,331,516
Income Taxes	2,352,161	0	0	2,352,161
Intergovernmental	13,312,794	139,911	2,715,592	16,168,297
Investment Earnings	50,382	0	1,256	51,638
Tuition and Fees	1,330,923	0	0	1,330,923
Extracurricular Activities	58,282	0	109,831	168,113
Rentals	8,427	0	0	8,427
Customer Sales and Service	1,437	0	332,372	333,809
Contributions and Donations	14,094	0	139,787	153,881
Miscellaneous	133,546	0	63,158	196,704
<i>Total Revenues</i>	<u>22,526,854</u>	<u>1,096,921</u>	<u>3,471,694</u>	<u>27,095,469</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	10,710,443	0	236,804	10,947,247
Special	1,899,507	0	198,256	2,097,763
Vocational	830,197	0	4,525	834,722
Student Intervention Services	2,212	0	0	2,212
Support Services:				
Pupils	1,004,792	0	0	1,004,792
Instructional Staff	1,659,275	0	1,249,086	2,908,361
Board of Education	22,751	0	0	22,751
Administration	1,924,682	0	57,490	1,982,172
Fiscal	52,312	35,047	3,694	91,053
Business	9,858	0	0	9,858
Operation and Maintenance of Plant	1,640,155	0	103,348	1,743,503
Pupil Transportation	1,745,297	0	1,916	1,747,213
Central	31,578	0	9,000	40,578
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,105,645	1,105,645
Other	17,248	0	75,163	92,411
Extracurricular Activities	448,306	0	154,635	602,941
Capital Outlay	0	0	266,990	266,990
Debt Service:				
Principal Retirement	0	488,000	0	488,000
Interest and Fiscal Charges	0	435,301	0	435,301
<i>Total Expenditures</i>	<u>21,998,613</u>	<u>958,348</u>	<u>3,466,552</u>	<u>26,423,513</u>
Excess of Revenues Over Expenditures	<u>528,241</u>	<u>138,573</u>	<u>5,142</u>	<u>671,956</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Capital Assets	1,519	0	0	1,519
Transfers In	0	57,136	302,822	359,958
Transfers Out	(357,136)	0	(2,822)	(359,958)
<i>Total Other Financing Sources (Uses)</i>	<u>(355,617)</u>	<u>57,136</u>	<u>300,000</u>	<u>1,519</u>
<i>Net Change in Fund Balances</i>	172,624	195,709	305,142	673,475
<i>Fund Balances at Beginning of Year</i>	<u>4,580,052</u>	<u>1,707,167</u>	<u>2,433,828</u>	<u>8,721,047</u>
<i>Fund Balances at End of Year</i>	<u>\$4,752,676</u>	<u>\$1,902,876</u>	<u>\$2,738,970</u>	<u>\$9,394,522</u>

See accompanying notes to the basic financial statements

Hillsboro City School District
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$673,475

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

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

Capital assets additions	615,736	
Depreciation expense	(2,184,235)	
Excess of depreciation over capital outlay expense		(1,568,499)

The proceeds from the sale of capital assets are reported as receipts in the governmental funds. However, the cost of the capital assets are removed from the capital assets account in the statement of net position and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities.

Proceeds from sale of capital assets	(1,519)	
Loss on disposal of capital assets	(18,500)	
		(20,019)

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

Delinquent property taxes	60,626	
Intergovernmental	(121,549)	
Investment earnings	8,507	
		(52,416)

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

Bond payments	465,000	
Capital lease payments	23,000	
		488,000

Governmental funds report premiums and bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Amortization of bond premium	14,291	
Amortization of loss on refunding	(8,148)	
Accretion on capital appreciation bonds	(42,314)	
		(36,171)

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

Increase in compensated absences payable	(43,792)	
Decrease in accrued interest payable	(93,817)	
Decrease in early retirement incentive payable	320,000	
Total (increase)/decrease		182,391

Change in Net Position of Governmental Activities (\$333,239)

Hillsboro City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$5,795,069	\$5,259,106	\$5,259,610	\$504
Income Taxes	2,531,715	2,297,567	2,297,768	201
Intergovernmental	12,988,580	13,267,282	13,268,470	1,188
Interest	46,023	47,011	47,011	0
Tuition and Fees	1,302,892	1,330,849	1,330,970	121
Extracurricular Activities	57,058	58,282	58,282	0
Customer Services	8,250	8,427	8,427	0
Rent	1,407	1,437	1,437	0
Gifts and Donations	13,798	14,094	14,094	0
Miscellaneous	91,591	93,556	93,556	0
Total Revenues	22,836,383	22,377,611	22,379,625	2,014
Expenditures:				
Current:				
Instruction:				
Regular	10,862,123	10,753,775	10,753,775	0
Special	1,869,678	1,851,028	1,848,284	2,744
Vocational	869,289	860,618	859,408	1,210
Student Intervention Services	2,634	2,608	2,608	0
Support Services:				
Pupils	1,009,629	999,558	999,558	0
Instructional Staff	1,742,588	1,725,206	1,712,618	12,588
Board of Education	22,972	22,743	22,743	0
Administration	1,953,356	1,933,872	1,929,460	4,412
Fiscal	59,664	59,069	59,069	0
Business	9,957	9,858	9,858	0
Operation and Maintenance of Plant	1,770,583	1,752,922	1,750,336	2,586
Pupil Transportation	1,776,932	1,759,207	1,741,364	17,843
Central	35,086	34,736	34,736	0
Operation of Non-Instructional Services:				
Community Services	17,472	17,298	17,298	0
Extracurricular Activities	452,472	447,959	447,959	0
Total Expenditures	22,454,437	22,230,457	22,189,074	41,383
Excess of Revenues Over Expenditures	381,946	147,154	190,551	43,397
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	0	4,838	4,838	0
Advances In	0	58,273	58,273	0
Refund of Prior Year Expenditures	0	19,413	19,413	0
Transfers Out	0	(357,136)	(357,136)	0
Advances Out	0	(10,069)	(10,069)	0
Total Other Financing Sources (Uses)	0	(284,681)	(284,681)	0
Net Change in Fund Balance	381,946	(137,527)	(94,130)	43,397
Fund Balance at Beginning of Year	5,372,946	5,372,946	5,372,946	0
Prior Year Encumbrances Appropriated	168,035	168,035	168,035	0
Fund Balance at End of Year	\$5,922,927	\$5,403,454	\$5,446,851	\$43,397

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$13,598	\$61,621
<u>Liabilities:</u>		
Undistributed Monies	0	\$61,621
<u>Net Position:</u>		
Held in Trust for Scholarships	\$13,598	

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013

	Private Purpose Trust
	Scholarships
<u>Additions:</u>	
Contributions and Donations	\$1,000
<u>Deductions:</u>	
Payments in Accordance with Trust Agreements	3,000
<i>Change in Net Position</i>	(2,000)
<i>Net Position at Beginning of Year</i>	15,598
<i>Net Position at End of Year</i>	\$13,598

See accompanying notes to the basic financial statements

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Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

Reporting Entity:

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

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY
(Continued)

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

Jointly Governed Organizations:

Miami Valley Educational Computer Association
Coalition of Rural and Appalachian Schools

Insurance Purchasing Pool:

Ohio SchoolComp Group Retrospective Rating Program

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fiduciary Funds:

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

Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

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

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources:

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, income taxes, interest and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Expenses/Expenditures:

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

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

Cash and Cash Equivalents

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

During fiscal year 2013, the School District’s investments were limited to Federal National Mortgage Association Notes and negotiable certificates of deposit.

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2013 amounted to \$50,382, which includes \$22,742 assigned from other School District funds.

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

Restricted Assets

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

Interfund Balances

On fund financial statements, outstanding interfund loans are reported as “Interfund Receivables” and “Interfund Payable”. Long-term interfund loan receivables, reported as “Advances to Other Funds” or “Advances from Other Funds”, are classified as nonspendable fund balance which indicates that they are not in spendable form even though it is a component of net current position. These amounts are eliminated in the governmental columns of the Statement of Net Position.

Inventory

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

Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets usually result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Compensated Absences

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

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

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

Accrued Liabilities and Long-Term Obligations

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Balance

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

Nonspendable

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans, loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted

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

Committed

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned

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

Unassigned

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

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

Net Position

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

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

Internal Activity

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Budgetary Process

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

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Premiums/Compounded Interest on Capital Appreciation Bonds

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

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

Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position

Estimates

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

NOTE 3 - FUND BALANCES

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 3 - FUND BALANCES (Continued)

Fund Balances	General	Debt Service	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>				
Long-Term Advances	\$15,000	\$0	\$0	\$15,000
Inventory	0	0	1,069	1,069
Library Materials	0	0	5,000	5,000
<i>Total Nonspendable</i>	<u>15,000</u>	<u>0</u>	<u>6,069</u>	<u>21,069</u>
<i>Restricted for</i>				
Debt Service	0	1,902,876	0	1,902,876
Food Service Operations	0	0	568,127	568,127
Miscellaneous Grants	0	0	5,461	5,461
Set Asides	88,848	0	0	88,848
Library Services	0	0	108	108
Capital Projects	0	0	1,011,389	1,011,389
Capital Maintenance	0	0	1,207,312	1,207,312
<i>Total Restricted</i>	<u>88,848</u>	<u>1,902,876</u>	<u>2,792,397</u>	<u>4,784,121</u>
<i>Committed to</i>				
Other Purposes	335,944	0	0	335,944
<i>Assigned to</i>				
Purchases on Order	144,440	0	0	144,440
Other Purposes	115,402	0	0	115,402
<i>Total Assigned</i>	<u>259,842</u>	<u>0</u>	<u>0</u>	<u>259,842</u>
<i>Unassigned (Deficit)</i>	<u>4,053,042</u>	<u>0</u>	<u>(59,496)</u>	<u>3,993,546</u>
<i>Total Fund Balances</i>	<u><u>\$4,752,676</u></u>	<u><u>\$1,902,876</u></u>	<u><u>\$2,738,970</u></u>	<u><u>\$9,394,522</u></u>

NOTE 4 - ACCOUNTABILITY

At June 30, 2013, the Athletic, Alternative School, Special Education Part B, Title I School Improvement, Title I, and Title II-A funds had negative fund balances of \$5,847, \$486, \$19,593, \$1,777, \$28,568, and \$3,225, respectively. The deficits in these funds were created by the recognition of accrued liabilities. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$172,624
Adjustments:	
Revenue Accruals	(128,071)
Expenditure Accruals	(30,243)
Encumbrances	(160,218)
Advances	(10,069)
Transfers	58,273
Decrease in Fair Market	
Value of Investments - 2012	(3,726)
Decrease in Fair Market	
Value of Investments - 2013	7,300
Budget Basis	(\$94,130)

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

Cash on Hand

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

Investments

As of June 30, 2013, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Percent of Total Investments</u>
Federal National Mortgage Association Notes	\$211,523	5 years	4.48%
Negotiable Certificates of Deposit	2,712,715	0 to 2 years	57.45%
Negotiable Certificates of Deposit	1,298,257	3 to 4 years	27.50%
Negotiable Certificates of Deposit	499,043	5 years	10.57%
Total Investments	<u>\$4,721,538</u>		

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Highland County. The Highland County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes that are measurable as of June 30, 2013 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows - property taxes.

The amount available as an advance at June 30, 2013 was \$189,203 in the General Fund, \$34,509 in the Debt Service Fund, and \$3,962 in the Nonmajor Governmental Funds. The amount available as an advance at June 30, 2012 was \$184,005 in the General Fund, \$34,684 in the Debt Service Fund, and \$3,872 in the Nonmajor Governmental Funds.

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 7 - PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second - Half Collections		2013 First - Half Collections	
	Amount	Percentage	Amount	Percentage
Agricultural/Residential and Other Real Estate	\$276,147,020	95.34%	\$264,971,410	95.07%
Public Utility Personal	13,499,200	4.66%	13,752,900	4.93%
Total Assessed Value	<u>\$289,646,220</u>	<u>100.00%</u>	<u>\$278,724,310</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$30.85		\$30.85	

NOTE 8 - INCOME TAX

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

NOTE 9 - RECEIVABLES

Receivables at June 30, 2013, consisted of accounts (student fees), interest, intergovernmental grants, property taxes, income taxes and interfund. All receivables, except for delinquent property taxes, are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. Intergovernmental receivables consist of the following:

	<u>Amounts</u>
<u>Governmental Activities:</u>	
Alternative Education Grant	\$2,697
Idea - B Grant	68,533
Title I Grant	209,429
Title II - A Grant	47,954
Title VI - B Grant	26,531
BWC Refund	42,493
SERS Receivable	12,980
Miscellaneous Receivables	<u>7,706</u>
Total Intergovernmental Receivables	<u><u>\$418,323</u></u>

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Balance at 6/30/12</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/13</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$574,464	\$0	(\$18,500)	\$555,964
Construction in Progress	26,329	192,780	0	219,109
Total Capital Assets Not Being Depreciated	<u>600,793</u>	<u>192,780</u>	<u>(18,500)</u>	<u>775,073</u>
Capital Assets Being Depreciated:				
Land Improvements	2,618,891	0	0	2,618,891
Buildings and Improvements	62,273,278	0	0	62,273,278
Furniture, Fixtures and Equipment	3,122,899	190,471	(6,076)	3,307,294
Vehicles	2,212,992	232,485	(138,036)	2,307,441
Textbooks	996,123	0	0	996,123
Totals Capital Assets Being Depreciated	<u>71,224,183</u>	<u>422,956</u>	<u>(144,112)</u>	<u>71,503,027</u>
Less Accumulated Depreciation:				
Land Improvements	(1,123,772)	(137,114)	0	(1,260,886)
Buildings and Improvements	(8,683,474)	(1,560,252)	0	(10,243,726)
Furniture, Fixtures and Equipment	(1,456,932)	(303,704)	4,557	(1,756,079)
Vehicles	(1,430,450)	(183,165)	138,036	(1,475,579)
Textbooks	(996,122)	0	0	(996,122)
Total Accumulated Depreciation	<u>(13,690,750)</u>	<u>(2,184,235) *</u>	<u>142,593</u>	<u>(15,732,392)</u>
Total Capital Assets Being Depreciated, Net	<u>57,533,433</u>	<u>(1,761,279)</u>	<u>(1,519)</u>	<u>55,770,635</u>
Governmental Activities Capital Assets, Net	<u>\$58,134,226</u>	<u>(\$1,568,499)</u>	<u>(\$20,019)</u>	<u>\$56,545,708</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,701,259
Special	4,445
Vocational	14,867
Support Services:	
Instructional Staff	11,423
Administration	9,398
Fiscal	437
Operation and Maintenance of Plant	161,239
Pupil Transportation	199,044
Operation of Non-Instructional Services - Food Service Operations	52,947
Extracurricular Activities	29,176
Total Depreciation Expense	<u>\$2,184,235</u>

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 11 - RISK MANAGEMENT

Property and Liability

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

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

In addition, the School District maintains replacement cost insurance on buildings and contents in the blanket amount of \$82,808,516. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The School District pays all appointed officials' bonds by statute.

Employee Medical Benefits

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

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

Workers' Compensation

For fiscal year 2013, the School District participated in the Ohio SchoolComp Group Retrospective Rating Program (GRRP), an insurance purchasing pool (See Note 18). The intent of the GRRP is to reward participants that are able to keep their claims costs below a predetermined amount. As part of the GRRP, school districts join together as a group. Each school district continues to pay its own individual premium to the State. However, each school district has the opportunity to receive retrospective premium adjustments (refunds or assessments) at 12, 24, and 36 months after the end of the policy year. At the end of each policy year, the Bureau of Workers' Compensation (BWC) will take a snap-shot of the incurred claims losses (indemnity, medical, and reserves) for the entire group and calculate the group's retrospective premium. If the retrospective premium that is calculated is less than the group's total standard premium, the participants will receive a refund. However, if the retrospective premium is greater than the group's total standard premium, an assessment will be levied by BWC. Each group limits the maximum assessment by selecting a premium cap between five percent and 100 percent of merit rated premium. Participation in the GRRP is limited to school districts that can meet the GRRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRRP.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 12 – DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$414,989, \$402,279 and \$287,851, respectively. The full amount has been contributed for fiscal years 2013, 2012 and 2011.

State Teachers Retirement System of Ohio

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement 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 Street, Columbus, OH 43215-3771; by calling (888) 227-7877; or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 12 – DEFINED BENEFIT PENSION PLANS (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 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 Ohio Revised Code Chapter 3307.

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

Funding Policy – Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan was \$1,377,081 for the fiscal year ended June 30, 2013, \$1,279,824 for the fiscal year ended June 30, 2012, and \$1,381,163 for the fiscal year ended June 30, 2011. For fiscal year 2013, 86.24 percent has been contributed for the DB Plan and Combined Plan with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2013 were \$5,564 made by the School District and \$3,974 made by the plan members. In addition, member contributions of \$16,742 were made for fiscal year 2013 for the defined contribution portion of the Combined Plan, with \$23,439 contributed by the School District.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2013, one member of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 13 – POST-EMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report, which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$20,525. During fiscal year 2013, the School District paid \$48,915 in surcharge.

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

The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$57,283, \$63,393, and \$83,601, respectively. The full amount has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$24,180, \$23,757, and \$18,524, respectively. The full amount has been contributed for fiscal years 2013, 2012 and 2011.

State Teachers Retirement System of Ohio

Plan Description – The School District contributes to the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 or by calling (888) 227-7877.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 13 – POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to one percent of covered payroll to postemployment health care. The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$105,929, \$98,448, and \$106,243, respectively. For fiscal year 2013, 86.24 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

NOTE 14 - EMPLOYEE BENEFITS

Compensated Absences

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

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

Early Retirement Incentive

In fiscal year 2011, the School District is offering a one-time early retirement incentive package for employees who are eligible to retire and employees who would be at the 30 and 35 year mark during fiscal year 2012. Teachers and administrators electing the incentive will receive \$40,000, plus severance pay. Classified staff electing the incentive will receive 100 percent of his/her 2011 base salary, not to exceed \$20,000, plus severance pay. Twenty-three employees elected to accept the retirement incentive package. As of June 30, 2013, the early retirement incentive was paid in full.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 15 - CAPITALIZED LEASES – LESSEE DISCLOSURE

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

Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments totaled \$23,000 during fiscal year 2013.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Asset:			
Buildings and Improvements	\$818,000	\$110,332	\$707,668

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

Fiscal Year Ending June 30,	Total Payments
2014	\$55,634
2015	55,500
2016	56,296
2017	55,044
2018	54,771
2019-2023	274,645
2024-2028	273,424
2029-2032	216,696
Total Minimum Lease Payments	1,042,010
Less Amount Representing Interest and Fees	(347,010)
Present Value of Minimum Lease Payments	\$695,000

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 16 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2013 were as follows:

	Amount Outstanding 6/30/12	Additions	Deductions	Amount Outstanding 6/30/13	Amounts Due in One Year
<i>Governmental Activities:</i>					
General Obligation Bonds:					
School Improvements - 2001 3.25%	\$1,775,000	\$0	\$0	\$1,775,000	\$0
School Improvements - 2006 2.85%	2,715,000	0	110,000	2,605,000	115,000
School Improvements Refunding -					
2011 3.5%-4.15%	5,340,000	0	355,000	4,985,000	365,000
Capital Appreciation Bonds 3.62%-3.86%	435,000	0	0	435,000	0
Premium on Refunding Bonds	228,656	0	14,291	214,365	0
Accretion on Capital Appreciation Bonds	42,870	42,314	0	85,184	0
Total General Obligation Bonds	<u>10,536,526</u>	<u>42,314</u>	<u>479,291</u>	<u>10,099,549</u>	<u>480,000</u>
Capital Leases	718,000	0	23,000	695,000	24,000
Compensated Absences	928,428	125,071	81,279	972,220	155,246
Total Governmental Activities					
Long-Term Liabilities	<u>\$12,182,954</u>	<u>\$167,385</u>	<u>\$583,570</u>	<u>\$11,766,769</u>	<u>\$659,246</u>

School Improvement Bonds 2001

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

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

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

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

In June 2011, the School District issued \$5,830,000 in school improvement bonds for the purpose of refunding a portion of the 2001 School Improvement Bonds. \$5,395,000 were serial bonds and \$435,000 were capital appreciation bonds. This was an advance refunding. The bonds were issued for an 18 year period, with final maturity in December 2029. The bonds were issued at a premium of \$243,468 and had related issuance costs of \$100,602. Bond premium amounts will be amortized over the 18 year life of the bonds.

The School District defeased the 2001 School Improvement Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments due on the old bonds. Accordingly, the trust assets and the liability of the defeased bonds are not included in the School District's financial statements. As of June 30, 2013, \$5,775,000 of the bonds were unmatured and unpaid.

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

The capital appreciation bonds will mature in fiscal years 2021 and 2022. The maturity amount of the capital appreciation bonds will be \$940,000. For fiscal year 2013, the capital appreciation bonds were accreted \$42,314.

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

The School District's overall legal debt margin was \$17,188,064 with an unvoted debt margin of \$278,724 at June 30, 2013.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2013, are as follows:

Fiscal Year	School Improvement Bonds				
	Serial Bonds	Serial Bonds	Capital	Capital	Total
Ending June 30,	Principal	Interest	Appreciation Principal	Appreciation Interest	
2014	\$480,000	\$394,626	\$0	\$0	\$874,626
2015	505,000	379,179	0	0	884,179
2016	525,000	357,758	0	0	882,758
2017	545,000	332,585	0	0	877,585
2018	580,000	303,261	0	0	883,261
2019-2023	2,195,000	862,386	435,000	841,404	4,333,790
2024-2028	3,700,000	582,160	0	0	4,282,160
2029	835,000	18,002	0	0	853,002
Total	\$9,365,000	\$3,229,957	\$435,000	\$841,404	\$13,871,361

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 17 - INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the fiscal year ended June 30, 2013, were as follows:

Transfer From	Transfer To		
	Debt Service	All Other Governmental Funds	Total
General Fund	\$57,136	\$300,000	\$357,136
All Other Governmental Funds	0	2,822	2,822
Total	\$57,136	\$302,822	\$359,958

Transfers were made from the General Fund to move unrestricted balances to support programs and projects accounted for in other funds. Transfers were also made between Nonmajor Governmental Funds to reallocate monies to support programs accounted for in other funds.

Interfund Receivables/Payables

As of June 30, 2013, receivables and payables that resulted in various interfund transactions were as follows:

Payable	Receivable
	General Fund
All Other Nonmajor Governmental Funds	\$10,069

The amounts due to the General Fund are the result of the School District moving unrestricted balances to support programs and projects accounted for in the other funds. The General Fund will be reimbursed when funds become available.

Advances To/From Other Funds

As of June 30, 2013, receivables and payables that resulted from various long-term advances were as follows:

Advances To	Advances From
	General Fund
All Other Nonmajor Governmental Funds	\$15,000

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 17 - INTERFUND ACTIVITY (Continued)

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

NOTE 18 - SET-ASIDE CALCULATIONS

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

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

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

	Capital Acquisition	Budget Stabilization
Set-aside Balance as of June 30, 2012	\$3,071	\$75,952
Current Fiscal Year Set-aside Requirement	445,738	0
Prior Year Offset from Bond Proceeds	(189,882)	0
Current Fiscal Year Qualifying Expenditures	(170,079)	0
Set-aside Balance Carried		
Forward to Future Fiscal Years	\$88,848	\$75,952
Set-aside Balance		
as of June 30, 2013	\$88,848	\$75,952

The total reserve balance at the end of the fiscal year was \$164,800.

NOTE 19 - CONTINGENCIES

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2013.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 19 – CONTINGENCIES (Continued)

Litigation

The School District is not party to any legal proceeding.

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS

Miami Valley Educational Computer Association

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

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts, except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$84,210 for services provided during fiscal year 2013. Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Coalition of Rural and Appalachian Schools

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

NOTE 21 – INSURANCE PURCHASING POOL

Ohio SchoolComp Group Retrospective Rating Program

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

NOTE 22 – SIGNIFICANT COMMITMENTS

Encumbrances

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

General fund	\$160,220
Nonmajor Governmental Funds	123,013
Total	<u>\$283,233</u>

NOTE 23 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2013, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 62 incorporates into GASB’s authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the School District’s fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School District’s fiscal year 2013 financial statements.

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR						
<i>Pass Through Grantor</i>						
Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
National School Breakfast Program	3L70	10.553	\$184,904		\$184,904	
National School Lunch Program	3L60	10.555	597,486	70,697	597,486	70,697
Total Nutrition Cluster			<u>782,390</u>	<u>70,697</u>	<u>782,390</u>	<u>70,697</u>
State Administrative Expenses for Child Nutrition	3670	^10.560	15,718		15,525	
Total U.S. Department of Agriculture			<u>798,108</u>	<u>70,697</u>	<u>797,915</u>	<u>70,697</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Special Education Cluster:						
IDEA Part B	3M20	84.027	503,218		503,908	
Early Childhood	3C50	84.173	4,851		4,851	
Total Special Education Cluster			<u>508,069</u>		<u>508,759</u>	
Title I Cluster:						
ESEA Title I	3M00	84.010	842,837		912,668	
ESEA Title I School Improvement	3M00	84.010	182,817		184,326	
Total Title I Cluster			<u>1,025,654</u>		<u>1,096,994</u>	
Title II-D Technology						
Improving Teacher Quality	3Y60	84.367	140,136		147,178	
Ed Jobs	3ET0	84.410	62,509		63,368	
Rural and Low Income	3Y80	84.358	52,168		48,334	
Limited English Proficiency	3Y70	84.365	612		709	
<i>Passed through Great Oaks Institute of Technology and Career Development</i>						
Vocational Education Basic Grants to States Career Education	2012	84.048	6,000		6,000	
Total U.S. Department of Education			<u>1,795,148</u>		<u>1,875,586</u>	
NATIONAL ENDOWMENT OF THE ARTS						
<i>Passed Through State Library of Ohio</i>						
State Library Grant	VIII-3-12	45.310			6,887	
Total National Endowment of the Arts					<u>6,887</u>	
Total			<u><u>\$2,593,256</u></u>	<u><u>\$70,697</u></u>	<u><u>\$2,680,388</u></u>	<u><u>\$70,697</u></u>

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 11, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Hillsboro City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Hillsboro City School District's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Hillsboro City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

This report only describes the scope of our internal control compliance tests over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 11, 2014

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material 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	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	84.010 Title 1 Child Nutrition Cluster: National School Breakfast CFDA 10.553 and National School Lunch CFDA 10.555
<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?	No

**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

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on November 19, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

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

Columbus, Ohio

March 11, 2014

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Dave Yost • Auditor of State

HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 25, 2014**