



Dave Yost • Auditor of State

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland County, Ohio (the District), as of and for the year ended June 30, 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, the major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland County, Ohio, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof 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 Awards 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 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 the schedule 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 December 23, 2013, 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 "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

December 23, 2013

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

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

Financial Highlights

Key financial highlights for 2013 are as follows:

- In total, net position of governmental activities decreased \$593,198 which represents a 23.94% decrease from 2012.
- General revenues accounted for \$8,679,892 in revenue or 83.63% of all revenues. Program specific revenues, in the form of charges for services and sales, grants and contributions accounted for \$1,699,212 or 16.37% of total revenues of \$10,379,104.
- The District had \$10,972,302 in expenses related to governmental activities; only \$1,699,212 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,679,892 were not adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$9,156,478 in revenues and \$9,348,102 in expenditures and other financing uses. During fiscal 2013, the general fund's fund balance decreased \$191,624 from a balance of \$447,294 to \$255,670.

Using the Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

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

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

The District's statement of net position and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net position and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for employee benefits self-insurance. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 25 and 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-53 of this report.

The District as a Whole

Certain asset, deferred outflow, liability, deferred inflow, and net position classifications have been reclassified by the District for fiscal year 2012 to conform to fiscal year 2013 presentation in accordance with GASB Statement No. 63 and GASB Statement No. 65. The table below provides a summary of the District's net position at June 30, 2013 and June 30, 2012.

	Net Position	
	Governmental Activities 2013	Governmental Activities 2012
<u>Assets</u>		
Current and other assets	\$ 6,028,765	\$ 6,690,869
Capital assets, net	1,918,747	1,993,530
Total assets	7,947,512	8,684,399
<u>Liabilities</u>		
Current liabilities	1,578,992	1,548,438
Long-term liabilities	1,157,499	1,129,605
Total liabilities	2,736,491	2,678,043
<u>Deferred inflows</u>	3,326,809	3,528,946
<u>Net Position</u>		
Net investment in capital assets	1,810,897	1,823,680
Restricted	223,623	183,391
Unrestricted (deficit)	(150,308)	470,339
Total net position	\$ 1,884,212	\$ 2,477,410

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the District's assets exceeded liabilities and deferred inflows by \$1,884,212.

At year-end, capital assets represented 24.14% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and textbooks. The District's investment in capital assets at June 30, 2013, was \$1,810,897. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

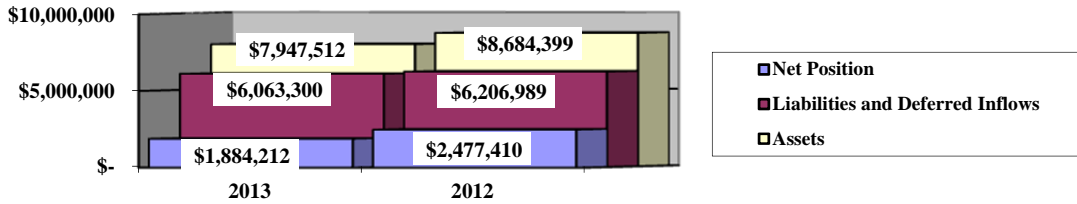
**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

A portion of the District's net position, \$223,623, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$150,308.

The graph below reports the District's governmental activities assets, liabilities and net position at June 30, 2013 and 2012.

Governmental Activities



The table below shows the change in net position for fiscal year 2013 and 2012.

	Change in Net Position	
	Governmental Activities 2013	Governmental Activities 2012
Revenues		
Program revenues:		
Charges for services and sales	\$ 772,367	\$ 789,940
Operating grants and contributions	926,845	1,132,636
Capital grants and contributions	-	23,997
General revenues:		
Property taxes	4,626,329	3,773,716
Grants and entitlements	3,971,352	3,990,398
Investment earnings	6,084	22,528
Other	76,127	92,772
Total revenues	10,379,104	9,825,987

Tax revenue increased 22.60% due to the difference in advances available at the end of each fiscal year. The amount of tax advances available from the County Auditor can vary depending upon when tax bills are mailed.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

	Change in Net Position	
	Governmental Activities 2013	Governmental Activities 2012
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,929,438	\$ 4,937,623
Special	798,174	748,882
Vocational	338,951	318,314
Other	252,075	272,026
Support services:		
Pupil	518,788	640,483
Instructional staff	363,691	417,529
Board of education	57,615	31,997
Administration	1,025,729	891,028
Fiscal	354,248	360,831
Operations and maintenance	683,925	591,299
Pupil transportation	890,746	934,476
Central	-	5,400
Operation of non-instructional services:		
Food service operations	381,515	388,072
Other non-instructional services	7,168	1,113
Extracurricular activities	361,020	381,042
Interest and fiscal charges	9,219	7,551
Total expenses	10,972,302	10,927,666
Change in net position	(593,198)	(1,101,679)
Net position at beginning of year	2,477,410	3,579,089
Net position at end of year	\$ 1,884,212	\$ 2,477,410

Governmental Activities

Net position of the District's governmental activities decreased \$593,198. Total governmental expenses of \$10,972,302 were offset by program revenues of \$1,699,212 and general revenues of \$8,679,892. Program revenues supported 15.49% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 82.84% of total governmental revenue. Real estate property is reappraised every six years.

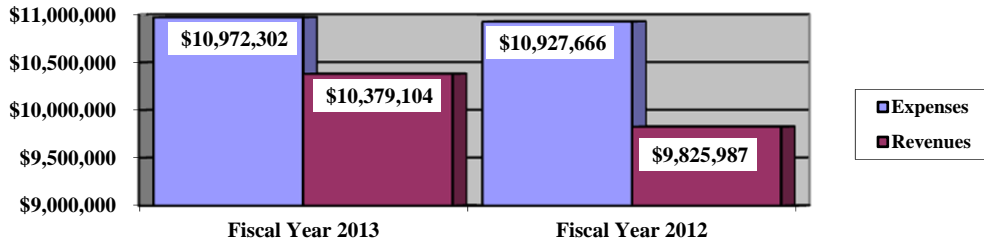
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,318,638 or 57.59% of total governmental expenses for fiscal 2013.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2013 and 2012.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013</u>	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>
Program expenses				
Instruction:				
Regular	\$ 4,929,438	\$ 4,492,376	\$ 4,937,623	\$ 4,332,824
Special	798,174	370,410	748,882	322,510
Vocational	338,951	273,955	318,314	253,318
Other	252,075	252,075	272,026	272,026
Support services:				
Pupil	518,788	514,226	640,483	578,644
Instructional staff	363,691	285,310	417,529	300,216
Board of education	57,615	57,615	31,997	31,997
Administration	1,025,729	907,768	891,028	826,628
Fiscal	354,248	353,978	360,831	360,831
Operations and maintenance	683,925	681,586	591,299	566,356
Pupil transportation	890,746	866,201	934,476	917,043
Central	-	-	5,400	-
Food service operations		(13,493)	388,072	(28,221)
Operations of non-instructional services	381,515	1,147	1,113	1,113
Extracurricular activities	7,168	220,717	381,042	238,257
Interest and fiscal charges	9,219	9,219	7,551	7,551
Total expenses	<u>\$ 10,972,302</u>	<u>\$ 9,273,090</u>	<u>\$ 10,927,666</u>	<u>\$ 8,981,093</u>

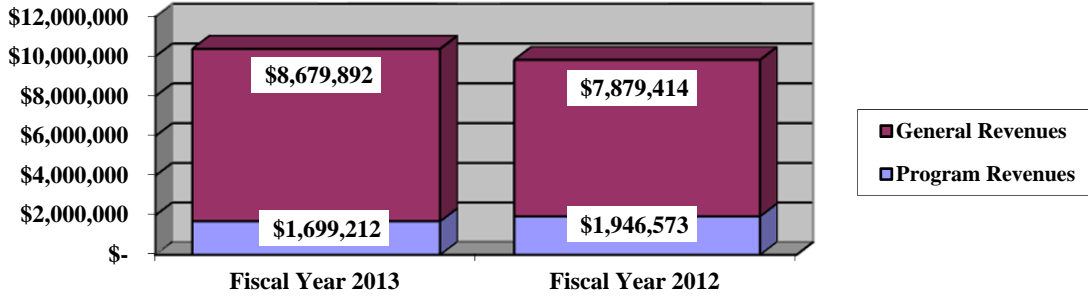
The dependence upon tax and other general revenues for governmental activities is apparent, 85.28% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.51%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are the primary support for District's students.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal year 2013 and 2012.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$614,230, which is less than last year's total of \$753,371. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	Fund Balance <u>June 30, 2013</u>	Fund Balance <u>June 30, 2012</u>	Increase (Decrease)
General	\$ 255,670	\$ 447,294	\$ (191,624)
Other governmental	<u>358,560</u>	<u>306,077</u>	<u>52,483</u>
Total	<u>\$ 614,230</u>	<u>\$ 753,371</u>	<u>\$ (139,141)</u>

General Fund

The District's general fund's fund balance decreased by \$191,624. Although the District saw increasing revenues of \$770,631, expenditures continued to outpace revenues in fiscal year 2013.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

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

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,391,385	\$ 3,598,720	22.03 %
Tuition	336,877	375,545	(10.30) %
Earnings on investments	1,714	3,015	(43.15) %
Intergovernmental	4,263,168	4,274,504	(0.27) %
Other revenues	<u>163,334</u>	<u>134,063</u>	21.83 %
Total	<u>\$ 9,156,478</u>	<u>\$ 8,385,847</u>	9.19 %
<u>Expenditures</u>			
Instruction	\$ 5,819,666	\$ 5,600,306	3.92 %
Support services	3,304,151	3,580,164	(7.71) %
Operation of non-instructional services	1,234	465	165.38 %
Extracurricular activities	218,965	243,152	(9.95) %
Facilities acquisition and construction	<u>-</u>	<u>14,365</u>	(100.00) %
Total	<u>\$ 9,344,016</u>	<u>\$ 9,438,452</u>	(1.00) %

Tax revenue increased \$792,665 or 22.03% due to the advances available at June 30, 2013. The amount of tax advances available from the County Auditor can vary depending upon when tax bills are mailed. Tuition decreased due to a decrease in open enrollment. While percentage changes for earnings on investments, operation of non-instructional services and facilities acquisition and construction were significant, the change in dollars was immaterial. All other revenues and expenditures were comparable to the prior year.

General Fund Budgeting Highlights

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

During the course of fiscal 2013, the District amended its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$8,592,220 and \$9,510,290, respectively. Actual revenues and other financing sources for fiscal 2013 was \$9,512,338. This represents a \$2,048 increase over final budgeted revenues.

General fund original and final appropriations (appropriated expenditures and other financing uses) were \$9,191,365 and \$9,962,074, respectively. The actual budget basis expenditures and other financing uses for fiscal year 2013 totaled \$9,833,298 which was \$128,776 less than the final budget appropriations.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2013, the District had \$1,918,747 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and textbooks. The entire amount is reported in governmental activities. The following table shows fiscal 2013 balances compared to 2012:

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

Governmental Activities

	<u>2013</u>	<u>2012</u>
Land	\$ 51,970	\$ 51,970
Land improvements	151,379	156,532
Building and improvements	987,456	1,031,642
Furniture and equipment	404,286	422,946
Vehicles	246,965	250,460
Infrastructure	14,489	15,039
Textbooks	<u>62,202</u>	<u>64,941</u>
Total	<u>\$ 1,918,747</u>	<u>\$ 1,993,530</u>

Total additions to capital assets for 2013 were \$117,094. Disposals to capital assets for 2013 were \$16,774 (net of accumulated depreciation). Depreciation expense for fiscal 2013 was \$175,103. Overall, capital assets of the District decreased \$74,783. See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2013, the District had \$107,850 in energy conservation notes and sewer improvement bonds outstanding. Of this total, \$67,350 is due within one year and \$40,500 is due within greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
Sewer improvement bonds	\$ 67,500	\$ 94,500
Energy conservation notes	<u>40,350</u>	<u>75,350</u>
Total	<u>\$ 107,850</u>	<u>\$ 169,850</u>

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

Current Financial Related Activities

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

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 45% of revenues for governmental activities for the Hillsdale Local District in year 2013.

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

Effective July 1, 2013, with the biennial budget, State revenue is not anticipated to grow. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The Superintendent of Public Instruction declared the District in a state of fiscal caution effective June 14, 2012.

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

Contacting the District's Financial Management

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 767,567
Cash with fiscal agent	527,236
Receivables:	
Property taxes	4,537,569
Accounts.	526
Intergovernmental	61,147
Prepayments	121,156
Materials and supplies inventory.	8,363
Inventory held for resale	5,201
Capital assets:	
Land	51,970
Depreciable capital assets, net.	1,866,777
Capital assets, net	1,918,747
Total assets.	7,947,512
Liabilities:	
Accounts payable.	108,286
Accrued wages and benefits payable	780,085
Pension obligation payable.	176,543
Intergovernmental payable	36,424
Unearned revenue	146,181
Accrued interest payable	325
Claims payable.	331,148
Long-term liabilities:	
Due within one year.	378,965
Due in more than one year.	778,534
Total liabilities	2,736,491
Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	3,326,809
Total deferred inflows of resources	3,326,809
Net position:	
Net investment in capital assets	1,810,897
Restricted for:	
Capital projects	89,994
Locally funded programs	2,258
Federally funded programs	3,544
Student activities	38,731
Other purposes	89,096
Unrestricted (deficit)	(150,308)
Total net position.	\$ 1,884,212

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 4,929,438	\$ 422,718	\$ 14,344	\$ (4,492,376)
Special	798,174	-	427,764	(370,410)
Vocational	338,951	-	64,996	(273,955)
Other	252,075	-	-	(252,075)
Support services:				
Pupil	518,788	-	4,562	(514,226)
Instructional staff	363,691	-	78,381	(285,310)
Board of education	57,615	-	-	(57,615)
Administration	1,025,729	-	117,961	(907,768)
Fiscal	354,248	-	270	(353,978)
Operations and maintenance	683,925	1,366	973	(681,586)
Pupil transportation	890,746	-	24,545	(866,201)
Operation of non-instructional services:				
Other non-instructional services	7,168	-	6,021	(1,147)
Food service operations	381,515	207,980	187,028	13,493
Extracurricular activities	361,020	140,303	-	(220,717)
Interest and fiscal charges	9,219	-	-	(9,219)
Total governmental activities	\$ 10,972,302	\$ 772,367	\$ 926,845	(9,273,090)
General revenues:				
Property taxes levied for:				
General purposes				4,382,210
Capital outlay				244,119
Grants and entitlements not restricted				
to specific programs				3,971,352
Investment earnings				6,084
Miscellaneous				76,127
Total general revenues				8,679,892
Change in net position				(593,198)
Net position at beginning of year				2,477,410
Net position at end of year				\$ 1,884,212

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 383,205	\$ 384,362	\$ 767,567
Receivables:			
Property taxes.	4,298,045	239,524	4,537,569
Accounts	21	505	526
Intergovernmental.	19,563	41,584	61,147
Prepayments.	114,188	6,968	121,156
Materials and supplies inventory.	7,684	679	8,363
Inventory held for resale	-	5,201	5,201
Total assets	<u>\$ 4,822,706</u>	<u>\$ 678,823</u>	<u>\$ 5,501,529</u>
Liabilities:			
Accounts payable	\$ 39,910	\$ 68,376	\$ 108,286
Accrued wages and benefits payable	738,781	41,304	780,085
Compensated absences payable	221,426	571	221,997
Intergovernmental payable	23,286	13,138	36,424
Unearned revenue.	25,025	-	25,025
Pension obligation payable	166,368	10,175	176,543
Total liabilities.	<u>1,214,796</u>	<u>133,564</u>	<u>1,348,360</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year.	3,151,197	175,612	3,326,809
Delinquent property tax revenue not available.	198,943	11,087	210,030
Intergovernmental revenue not available	2,100	-	2,100
Total deferred inflows of resources	<u>3,352,240</u>	<u>186,699</u>	<u>3,538,939</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory.	7,684	679	8,363
Prepays.	114,188	6,968	121,156
Restricted:			
Capital improvements	-	78,907	78,907
Food service operations	-	94,525	94,525
Special education	-	2,697	2,697
Targeted academic assistance	-	5,884	5,884
Other purposes.	-	2,258	2,258
Extracurricular.	-	38,731	38,731
Committed:			
Capital improvements	-	127,926	127,926
Assigned:			
Student instruction	4,569	-	4,569
Student and staff support.	49,768	-	49,768
Subsequent year's appropriations	91,539	-	91,539
Unassigned (deficit)	(12,078)	(15)	(12,093)
Total fund balances	<u>255,670</u>	<u>358,560</u>	<u>614,230</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 4,822,706</u>	<u>\$ 678,823</u>	<u>\$ 5,501,529</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013**

Total governmental fund balances		\$ 614,230
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,918,747
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Property taxes receivable	\$ 210,030	
Intergovernmental receivable	2,100	
Total	212,130	212,130
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		74,932
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.		
Energy conservation notes	(40,350)	
Compensated absences payable	(827,652)	
Sewer improvement bonds	(67,500)	
Accrued interest payable	(325)	
Total	(935,827)	(935,827)
Net position of governmental activities		\$ 1,884,212

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 4,391,385	\$ 244,640	\$ 4,636,025
Tuition	336,877	-	336,877
Earnings on investments	1,714	-	1,714
Charges for services	-	207,980	207,980
Extracurricular	-	140,303	140,303
Classroom materials and fees	85,741	-	85,741
Rental income	1,466	-	1,466
Contributions and donations	9,695	61	9,756
Other local revenues	66,432	900	67,332
Intergovernmental - intermediate	-	6,300	6,300
Intergovernmental - state	4,257,520	53,683	4,311,203
Intergovernmental - federal	5,648	582,135	587,783
Total revenues	<u>9,156,478</u>	<u>1,236,002</u>	<u>10,392,480</u>
Expenditures:			
Current:			
Instruction:			
Regular	4,696,710	19,895	4,716,605
Special	560,618	171,085	731,703
Vocational	310,263	4,001	314,264
Other	252,075	-	252,075
Support services:			
Pupil	513,936	5,432	519,368
Instructional staff	269,578	76,907	346,485
Board of education	48,709	-	48,709
Administration	814,073	116,270	930,343
Fiscal	342,981	5,792	348,773
Operations and maintenance	589,651	25,494	615,145
Pupil transportation	725,223	94,850	820,073
Operation of non-instructional services:			
Other non-instructional services	1,234	5,934	7,168
Food service operations	-	382,125	382,125
Extracurricular activities	218,965	136,016	354,981
Facilities acquisition and construction	-	72,375	72,375
Debt service:			
Principal retirement	-	62,000	62,000
Interest and fiscal charges	-	9,429	9,429
Total expenditures	<u>9,344,016</u>	<u>1,187,605</u>	<u>10,531,621</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(187,538)</u>	<u>48,397</u>	<u>(139,141)</u>
Other financing sources (uses):			
Transfers in	-	71,429	71,429
Transfers (out)	<u>(4,086)</u>	<u>(67,343)</u>	<u>(71,429)</u>
Total other financing sources (uses)	<u>(4,086)</u>	<u>4,086</u>	<u>-</u>
Net change in fund balances	(191,624)	52,483	(139,141)
Fund balances at beginning of year	<u>447,294</u>	<u>306,077</u>	<u>753,371</u>
Fund balances at end of year	<u>\$ 255,670</u>	<u>\$ 358,560</u>	<u>\$ 614,230</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**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 \$ (139,141)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	\$ 117,094	
Current year depreciation	(175,103)	
Total	(58,009)	(58,009)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position. (16,774)

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

Property taxes	(9,696)	
Intergovernmental	(8,050)	
Total	(17,746)	(17,746)

An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (531,874)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:

Sewer improvement bonds	27,000	
Energy conservation notes	35,000	
Total	62,000	62,000

In the statement of activities, interest is accrued on outstanding notes and bonds, whereas in governmental funds, an interest expenditure is reported when due. 210

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 108,136

Change in net position of governmental activities \$ (593,198)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 4,069,795	\$ 4,139,968	\$ 4,139,972	\$ 4
Tuition	364,076	336,877	336,877	-
Earnings on investments	3,000	1,750	1,714	(36)
Classroom materials and fees	18,020	90,327	91,829	1,502
Rental income	0	1,363	1,366	3
Contributions and donations	9,652	8,479	8,479	-
Other local revenues	6,351	5,867	6,406	539
Intergovernmental - state	4,103,657	4,257,519	4,257,520	1
Intergovernmental - federal	4,001	5,316	5,351	35
Total revenues	8,578,554	8,847,466	8,849,514	2,048
Expenditures:				
Current:				
Instruction:				
Regular	4,517,171	4,527,948	4,495,150	32,798
Special	473,893	560,091	556,046	4,045
Vocational	305,287	310,902	308,905	1,997
Other	256,163	253,267	252,075	1,192
Support services:				
Pupil	503,551	525,574	523,006	2,568
Instructional staff	276,470	275,214	271,942	3,272
Board of education	40,102	49,994	48,241	1,753
Administration	802,428	824,285	818,383	5,902
Fiscal	344,546	352,690	350,060	2,630
Operations and maintenance	655,110	633,038	604,099	28,939
Pupil transportation	781,076	770,516	731,360	39,156
Other of non-instructional services	747	1,356	1,234	122
Extracurricular activities	234,820	221,809	218,634	3,175
Total expenditures	9,191,365	9,306,685	9,179,135	127,550
Excess of expenditures over revenues	(612,811)	(459,219)	(329,621)	129,598
Other financing sources (uses):				
Refund of prior year's expenditures	3,000	2,158	2,158	-
Refund of prior year's receipts	-	(100)	(77)	23
Transfers (out)	-	(655,289)	(654,086)	1,203
Advances in	10,666	10,666	10,666	-
Sale of notes	-	650,000	650,000	-
Total other financing sources (uses)	13,666	7,435	8,661	1,226
Net change in fund balance	(599,145)	(451,784)	(320,960)	130,824
Fund balance at beginning of year	552,837	552,837	552,837	-
Prior year encumbrances appropriated	46,315	46,315	46,315	-
Fund balance at end of year	\$ 7	\$ 147,368	\$ 278,192	\$ 130,824

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013**

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Cash with fiscal agent	\$ 527,236
Total assets	<u>527,236</u>
Liabilities:	
Claims payable	331,148
Unearned revenue	<u>121,156</u>
Total liabilities	<u>452,304</u>
Net position:	
Unrestricted.	<u>74,932</u>
Total net position.	<u><u>\$ 74,932</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 1,329,791
Total operating revenues	1,329,791
Operating expenses:	
Contractual services.	570,785
Claims	1,295,250
Total operating expenses.	1,866,035
Operating loss	(536,244)
Nonoperating revenues:	
Interest revenue	4,370
Total nonoperating revenues.	4,370
Change in net position	(531,874)
Net position at beginning of year.	606,806
Net position at end of year	\$ 74,932

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 1,309,771
Cash payments for contractual services	(570,785)
Cash payments for claims	<u>(1,249,695)</u>
Net cash used in operating activities	<u>(510,709)</u>
Cash flows from investing activities:	
Interest received	<u>4,370</u>
Net cash provided by investing activities	<u>4,370</u>
Net decrease in cash with fiscal agent	(506,339)
Cash with fiscal agent at beginning of year	1,033,575
Cash with fiscal agent at end of year	<u><u>\$ 527,236</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (536,244)
Changes in assets and liabilities:	
Decrease in unearned revenue	(20,020)
Increase in claims payable	<u>45,555</u>
Net cash used in operating activities	<u><u>\$ (510,709)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 8,404	\$ 34,419
Receivables:		
Accounts	-	152
	8,404	34,571
Total assets.	8,404	\$ 34,571
Liabilities:		
Accounts payable.	-	\$ 3,104
Due to students.	-	31,467
	-	34,571
Total liabilities	-	\$ 34,571
Net position:		
Held in trust for scholarships	8,404	
Total net position.	\$ 8,404	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 6
Total additions.	6
Change in net position	6
Net position at beginning of year.	8,398
Net position at end of year	\$ 8,404

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District employs 43 non-certified and 72 certified full-time and part-time employees to provide services to 1,023 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

A. Reporting Entity (Continued)

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

JOINTLY GOVERNED ORGANIZATIONS

Tri-County Computer Service Association

The Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic technology for administrative and instructional functions for member school districts. Each of the governments of these school districts supports TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. TCCSA is governed by a Board of Directors chosen from the general membership of the TCCSA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating school districts are located. Financial information can be obtained by contacting the treasurer at Tri-County Educational Services Center, which serves as fiscal agent, located in Wooster, Ohio. During the fiscal year ended June 30, 2013, the District paid \$92,576 to TCCSA.

Ashland County - West Holmes Career Center

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

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Educational Services Agency

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

Ohio School Boards Association Workers' Compensation Group Rating Program

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

A. Reporting Entity (Continued)

Ohio School Plan

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUND

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

B. Fund Accounting (Continued)

PROPRIETARY FUND (Continued)

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

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust fund which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities and monies held on-behalf of others.

C. Basis of Presentation and Measurement Focus

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

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

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

C. Basis of Presentation and Measurement Focus (Continued)

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

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

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

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

D. Basis of Accounting

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

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

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

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

D. Basis of Accounting (Continued)

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

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Delinquent property taxes due at June 30, 2013 and intergovernmental revenue not available, are recorded as deferred inflows on the governmental fund financial statements.

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

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

E. Budgets

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

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

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

F. Cash and Investments

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

During fiscal year 2013, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2013.

Under existing Ohio statutes, all investment earnings are assigned to the general fund, unless statutorily required to be credited to a specific fund or by Board resolution. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$1,714, which includes \$845 assigned from other District funds.

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

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

F. Cash and Investments (Continued)

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

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

G. Inventory

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

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

H. Capital Assets

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

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

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the statement of net position. The District had no interfund loans outstanding at June 30, 2013.

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance

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

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

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

L. Fund Balance (Continued)

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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

M. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for food service.

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

N. Prepayments

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

O. Estimates

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

P. Interfund Activity

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

Q. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had no restricted assets at June 30, 2013.

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2013.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

A. Change in Accounting Principles (Continued)

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the District.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

B. Deficit Fund Balance

Fund balances at June 30, 2013 included the following individual fund deficit:

<u>Nonmajor fund</u>	<u>Deficit</u>
Vocational education enhancement	\$ 15

The general fund is liable for the deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

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

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent (See Note 11D.). The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2013 was \$527,236. This represents the balance of the District's employee benefit self-insurance fund. This amount is not included in the "deposits" or "investments" reported below.

C. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all District deposits was \$373,074. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$166,717 of the District's bank balance of \$567,247 was exposed to custodial risk as discussed below, while \$400,530 was covered by the FDIC.

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

D. Investments

As of June 30, 2013, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 437,191	\$ 437,191

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 437,191	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 373,074
Investments	437,191
Cash with fiscal agent	527,236
Cash on hand	<u>125</u>
Total	<u>\$ 1,337,626</u>
<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 1,294,803
Private-purpose trust fund	8,404
Agency fund	<u>34,419</u>
Total	<u>\$ 1,337,626</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year ended June 30, 2013, consisted of the following, as reported on the fund financial statements:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 4,086
Nonmajor governmental funds	Nonmajor governmental funds	<u>67,343</u>
Total		<u>\$ 71,429</u>

The \$4,086 and \$67,343 transfers from the general fund and the nonmajor permanent improvement fund, respectively, were required to move resources to the debt service fund for retirement of the District's notes and bonds. Interfund transfers between governmental funds are eliminated on the statement of activities. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values 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 semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on 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 is currently assessed at varying percentages of true value.

The District receives property taxes from Ashland and Wayne Counties. The County Auditors periodically advances to the 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 as an advance at June 30, 2013 was \$947,905 in the general fund and \$52,825 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2012 was \$696,492 in the general fund and \$38,847 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 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.

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2012 Second Half Collections		2013 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 128,925,380	87.68	\$ 129,436,790	87.15
Public utility personal	<u>18,120,360</u>	<u>12.32</u>	<u>19,078,570</u>	<u>12.85</u>
Total	<u>\$ 147,045,740</u>	<u>100.00</u>	<u>\$ 148,515,360</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$49.40		\$49.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2013 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the receivables on the statement of net position follows:

Governmental activities:

Taxes	\$ 4,537,569
Accounts	526
Intergovernmental	<u>61,147</u>
Total	<u>\$ 4,599,242</u>

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 8 - CAPITAL ASSETS

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

Governmental activities:	Balance <u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2013</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 51,970	\$ -	\$ -	\$ 51,970
Total capital assets, not being depreciated	<u>51,970</u>	<u>-</u>	<u>-</u>	<u>51,970</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	321,761	-	-	321,761
Buildings and improvements	2,955,067	3,900	(9,904)	2,949,063
Furniture and equipment	1,250,286	35,114	(39,555)	1,245,845
Vehicles	952,130	78,080	-	1,030,210
Infrastructure	24,257	-	-	24,257
Textbooks	<u>546,685</u>	<u>-</u>	<u>-</u>	<u>546,685</u>
Total capital assets, being depreciated	<u>6,050,186</u>	<u>117,094</u>	<u>(49,459)</u>	<u>6,117,821</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(165,229)	(5,153)	-	(170,382)
Buildings and improvements	(1,923,425)	(38,182)	-	(1,961,607)
Furniture and equipment	(827,340)	(46,904)	32,685	(841,559)
Vehicles	(701,670)	(81,575)	-	(783,245)
Infrastructure	(9,218)	(550)	-	(9,768)
Textbooks	<u>(481,744)</u>	<u>(2,739)</u>	<u>-</u>	<u>(484,483)</u>
Total accumulated depreciation	<u>(4,108,626)</u>	<u>(175,103)</u>	<u>32,685</u>	<u>(4,251,044)</u>
Governmental activities capital assets, net	<u>\$ 1,993,530</u>	<u>\$ (58,009)</u>	<u>\$ (16,774)</u>	<u>\$ 1,918,747</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 73,907
Special	1,101
Vocational	1,000
<u>Support services:</u>	
Pupil	731
Administration	2,252
Operations and maintenance	6,354
Pupil transportation	77,800
Extracurricular activities	10,035
Food service operations	<u>1,923</u>
Total depreciation expense	<u>\$175,103</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2013, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2013</u>	Amounts Due in <u>One Year</u>
2011 Sewer improvement bonds: \$135,000, 2.710% interest rate, matures December 1, 2015	\$ 94,500	\$ -	\$ (27,000)	\$ 67,500	\$ 27,000
2000 Energy conservation notes: \$287,000, 5.125% interest rate, matures December 31, 2013	75,350	-	(35,000)	40,350	40,350
Compensated absences	<u>959,755</u>	<u>142,109</u>	<u>(52,215)</u>	<u>1,049,649</u>	<u>311,615</u>
Total governmental activities	<u>\$ 1,129,605</u>	<u>\$ 142,109</u>	<u>\$ (114,215)</u>	<u>\$ 1,157,499</u>	<u>\$ 378,965</u>

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

Compensated absences will be paid from the fund which the employees' salaries are paid which, for the District is the general fund.

Principal and interest requirements to retire the energy conservation notes outstanding at June 30, 2013, are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Energy Conservation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	<u>\$ 40,350</u>	<u>\$ 1,034</u>	<u>\$ 41,384</u>
Total	<u>\$ 40,350</u>	<u>\$ 1,034</u>	<u>\$ 41,384</u>

- B. The District issued sewer improvement bonds on April 29, 2011. The sewer improvement bonds are direct obligations of the District for which its full faith, credit and resources are pledged. Proceeds of the bonds were used for acquiring and constructing various sewer improvements at Hillsdale High School. Principal and interest payments on the sewer improvement bonds are made from the debt service fund (a nonmajor governmental fund).

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the sewer improvement bonds outstanding at June 30, 2013, are as follows:

Fiscal Year Ending June 30	Sewer Improvement Bonds		
	Principal	Interest	Total
2014	\$ 27,000	\$ 1,646	\$ 28,646
2015	27,000	915	27,915
2016	13,500	183	13,683
Total	<u>\$ 67,500</u>	<u>\$ 2,744</u>	<u>\$ 70,244</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2013, are a voted debt margin of \$13,298,882 and an unvoted debt margin of \$148,515.

NOTE 10 - REVENUE ANTICIPATION NOTES

On December 19, 2012, the District issued current revenue anticipation notes (Series 2012) for the purpose of cash flow borrowing. Issuance proceeds totaled \$650,000. The interest rates on the revenue anticipation notes were 1.55%. The revenue anticipation notes matured on June 28, 2013. Principal and interest payments on the revenue anticipation notes were made on May 15, 2013 out of the debt service fund (a nonmajor governmental fund).

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the District contracted for the following insurance coverage.

Coverage provided by the Ohio School Plan is as follows:

General Liability	
General Aggregate Limit	\$ 7,000,000
Blanket Property (\$1,000 deductible)	30,774,297
Vehicle Liability	5,000,000
Uninsured/Underinsured Motorists	1,000,000

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 11 - RISK MANAGEMENT (Continued)

A. Comprehensive (Continued)

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

For fiscal year 2013, the District participated in the Ohio School Plan ("the Plan"), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

B. Fidelity Bond

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

C. Workers' Compensation

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. For fiscal year 2013, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate.

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

D. Employee Health Insurance

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

The claims liability of \$331,148 reported in the internal service fund at June 30, 2013 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 11 - RISK MANAGEMENT - (Continued)

D. Employee Health Insurance (Continued)

Fiscal Year	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2013	\$ 285,593	\$ 1,295,250	\$ (1,249,695)	\$ 331,148
2012	257,740	1,098,884	(1,071,031)	285,593

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$134,539, \$137,672 and \$123,608, respectively; 70.56 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor.

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 12 - PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (Continued)

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$600,621, \$634,564 and \$606,901, respectively; 83.21 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$26,536 made by the District and \$18,954 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "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 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$21,020, \$24,676 and \$35,667, respectively; 70.56 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$7,600, \$8,130 and \$7,954, respectively; 70.56 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$46,202, \$48,813 and \$46,685, respectively; 83.21 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

(d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (320,960)
Net adjustment for revenue accruals	225,882
Net adjustment for expenditure accruals	(132,831)
Net adjustment for other sources/uses	(12,747)
Funds budgeted elsewhere*	1,601
Adjustment for encumbrances	<u>47,431</u>
GAAP basis	<u>\$ (191,624)</u>

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

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not involved in material litigation as either plaintiff or defendant at June 30, 2013.

NOTE 16 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 16 - SET-ASIDES (Continued)

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2012	\$ -
Current year set-aside requirement	174,127
Current year qualifying expenditures	(67,529)
Current year offsets	<u>(271,780)</u>
Total	<u>\$ (165,182)</u>
Balance carried forward to fiscal year 2014	<u>\$ -</u>
Set-aside balance June 30, 2013	<u>\$ -</u>

NOTE 17 - OTHER COMMITMENTS

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

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 19,716
Other governmental	<u>27,401</u>
Total	<u>\$ 47,117</u>

NOTE 18 - FINANCIAL CONDITION

On June 14, 2012, the District was declared to be in fiscal caution by the Ohio Department of Education and Auditor of State. Year end deficit balances have been disclosed in Note 3. An entity may be released from fiscal caution if the Department of Education determines that corrective actions have been or are being implemented.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 19 – MANAGEMENT PLAN

The Hillsdale Local School District's General Fund balance has been relatively low due to the economy, and the ever changing property tax allocation. Property Taxes allocated to the District increased slightly by two and one fourth percent (2.25%) or \$90,992 from Fiscal Year 2012 to Fiscal Year 2013. The District has also experienced the ending of the Stimulus funding. Property Tax Allocations (Homestead/Rollback) decreased by \$126,814 from Fiscal Year 2012 to Fiscal Year 2013. The District was contacted by the Ohio Department of Education (ODE) in June 2012. ODE requested the District prepare a general strategy plan (Fiscal Caution Financial Recovery Proposal) to address the deficit. The plan was submitted to ODE on August 2, 2012 under the guidance of the Board of Education. Below is a summary of the proposals in this plan for FY'13 and FY'14.

- New levy be placed on the November 6, 2012 ballot.
- Payment of debt from Permanent Improvement Fund not General Fund.
- Non-negotiated 0% increase on base salaries with no step increases.
- Decrease of expenditures in other areas such as Purchased Services, Materials and Supplies and Other Objects.

Other items for consideration in the future:

- Reduction in force with six (6) positions under consideration to be reduced in FY'13 and one and one-half (1.5) positions in FY'14.

Due to the failure of the November 6, 2012 levy issue, on March 5, 2013 the district submitted the second Fiscal Caution Financial Recovery Proposal as required by ODE under the guidance of the Board of Education. Below is a summary of the proposals in this plan for FY'13 and FY'14:

- New levy be placed on the November 5, 2013 ballot.
- Pay-to-participate fees.
- Cash flow borrowing of \$650,000.
- Non-negotiated 0% increase on base salaries with no step increases.
- Reductions in Force (RIF) of thirteen and one-half (13.5) teaching staff.
- Reduction of one-half position in Treasurer's Office.
- Retirements of three (3) classified employees.
- Retirement of one (1) teacher December 2012 and three (3) teachers effective February 2013.
- Across the Board pay reductions for all staff mid-year FY'13 (92 days) of 1.4%
- Decrease in Benefits mainly due to taking an additional insurance moratorium (premium holiday). There were four (4) moratoriums taken during FY'13
- Increase of benefits in FY'14 due to increased percentage increase for medical insurance; one (1) moratorium (premium holiday) in FY'14.
- Decrease of expenditures in other areas such as Purchased Services, Materials and Supplies and Other Objects.
- Payment of debt from Permanent Improvement Fund not General Fund.
- Shifting other allowable expenditures to Permanent Improvement Fund.

The Board of Education is updated monthly on the District's financial situation and the Five Year Forecast was updated in May 2013. The Board of Education will re-evaluate the general strategy plan at that time and take any additional actions needed.

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

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

Federal Grantor/ Passed Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor Number	Receipts	Expenditures
<u>U.S. Department of Agriculture</u> <i>(Passed through the Ohio Department of Education)</i>				
National School Lunch Program	10.555	N/A	\$173,726	\$173,726
Total National School Lunch Program/U.S. Department of Agriculture			<u>173,726</u>	<u>173,726</u>
<u>U.S. Department of Education</u> <i>(Passed through the Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies	84.010	2012	19,138	20,011
		2013	<u>134,671</u>	<u>147,936</u>
Total Title I Grants to Local Educational Agencies			153,809	167,947
Special Education Grants to States	84.027	2012	5,994	598
		2013	<u>187,896</u>	<u>173,477</u>
Total Special Education Grants to States			193,890	174,075
Improving Teacher Quality State Grants	84.367	2012	4,735	5,591
		2013	<u>25,144</u>	<u>14,553</u>
Total Improving Teacher Quality State Grants			<u>29,879</u>	<u>20,144</u>
Total U.S. Department of Education			<u>377,578</u>	<u>362,166</u>
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			<u><u>\$551,304</u></u>	<u><u>\$535,892</u></u>

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Hillsdale Local 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 entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, 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, the major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland County, Ohio (the District), as of and for the year ended June 30, 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 December 23, 2013.

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

December 23, 2013



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Hillsdale Local School District's, Ashland County, Ohio (the District's), 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 the District's major federal program for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal program.

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 the District's major federal program 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 program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, Hillsdale Local School District, Ashland County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program 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 the 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 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

December 23, 2013

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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):	CFDA #10.555 – National School Lunch Program
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

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

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Hillsdale Local School District, Ashland County, Ohio (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. In our report dated December 7, 2012, we noted the Board adopted an anti-harassment policy on April 13, 2010. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
2. The Board amended the policy on September 10, 2013. We read the amended policy, noting it now includes all the requirements listed in Ohio Rev. Code 3313.666.

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

December 23, 2013

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-3402 or 800-443-9275 Fax: 614-728-7199
www.auditor.state.oh.us

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Dave Yost • Auditor of State

HILLSDALE LOCAL SCHOOL DISTRICT

ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 4, 2014