



Dave Yost • Auditor of State



HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, Ohio, as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparisons for the General fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

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

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015, 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 "Y" and "O".

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 26, 2015

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**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

The discussion and analysis of Hillsboro City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

- The assets of the Hillsboro City School District exceeded its liabilities at June 30, 2014 by \$55,812,337. Of this amount, \$4,863,065 may be used to meet the School District's ongoing financial obligations. The remaining amount represents net investment in capital assets and net position amounts restricted for specific purposes.
- The School District's net position increased \$536,743.
- Governmental activities general revenues accounted for \$22,473,741 of total revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$6,034,129 of total governmental revenues of \$28,507,870.
- The School District had \$27,971,127 in expenses related to governmental activities; only \$6,034,129 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest. General revenues (primarily grants, entitlements, income taxes and property taxes) of \$22,473,741 were used to provide for these programs.

**Using the Basic Financial Statements**

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

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

**Reporting the School District as a Whole**

One of the most important questions asked about the School District is "How did we do financially during fiscal year 2014?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider

HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED

many other non-financial factors, such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

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

**Fund Financial Statements**

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

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

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

**The School District as a Whole**

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

Table 1 provides a summary of the School District's net position for fiscal years 2014 and 2013:

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

(Table 1)  
Net Position  
Governmental Activities

	2014	2013	Change in Net Position
<b>Assets:</b>			
Current and Other Assets	\$19,431,707	\$18,431,220	\$1,000,487
Capital Assets, Net	55,898,297	56,545,708	(647,411)
Total Assets	<u>75,330,004</u>	<u>74,976,928</u>	<u>353,076</u>
<b>Deferred Outflows of Resources</b>	<u>114,072</u>	<u>122,220</u>	<u>(8,148)</u>
<b>Liabilities:</b>			
Other Liabilities	2,514,593	2,263,866	250,727
Long-Term Liabilities	11,279,106	11,766,769	(487,663)
Total Liabilities	<u>13,793,699</u>	<u>14,030,635</u>	<u>(236,936)</u>
<b>Deferred Inflows of Resources</b>	<u>5,838,040</u>	<u>5,792,919</u>	<u>45,121</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	45,821,295	45,958,563	(137,268)
Restricted	5,127,977	4,968,201	159,776
Unrestricted	4,863,065	4,348,830	514,235
Total Net Position	<u>\$55,812,337</u>	<u>\$55,275,594</u>	<u>\$536,743</u>

Current and other assets increased due to closely monitoring expenditures while revenues increased significantly. This caused an increase in overall cash.

Capital assets decreased \$647,411, due primarily to depreciation exceeding additions.

Long-Term liabilities decreased as a result of the School District making current year debt payments.

Net investment in capital assets decreased due to current year depreciation exceeding current year additions.

Restricted and Unrestricted net position increased \$159,776 and \$514,235, respectively. This was due mostly to cash increasing as a result of the School District monitoring expenditures closely.

Table 2 shows the changes in net position for fiscal years 2014 and 2013.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

(Table 2)  
Changes in Net Position  
Governmental Activities

	2014	2013	Change
<b>Revenues:</b>			
Program Revenues:			
Charges for Services and Sales	\$1,983,321	\$1,841,272	\$142,049
Operating Grants, Contributions and Interest	4,037,854	3,570,822	467,032
Capital Grants and Contributions	12,954	116,930	(103,976)
Total Program Revenues	<u>6,034,129</u>	<u>5,529,024</u>	<u>505,105</u>
General Revenues:			
Property Taxes	6,462,335	6,392,142	70,193
Income Taxes	2,421,800	2,352,161	69,639
Grants and Entitlements not Restricted to Specific Programs	13,249,073	12,500,036	749,037
Gifts and Donations	5,556	14,094	(8,538)
Interest	66,472	58,892	7,580
Miscellaneous	268,505	196,704	71,801
Total General Revenues	<u>22,473,741</u>	<u>21,514,029</u>	<u>959,712</u>
Total Revenues	<u>28,507,870</u>	<u>27,043,053</u>	<u>1,464,817</u>
<b>Program Expenses:</b>			
Instruction	17,257,175	15,034,873	2,222,302
Support Services:			
Pupils and Instructional Staff	1,790,071	3,888,061	(2,097,990)
Administration, Fiscal and Business	2,546,533	2,177,584	368,949
Operations and Maintenance of Plant	2,233,050	1,959,042	274,008
Pupil Transportation	1,843,592	1,792,521	51,071
Central	95,341	40,941	54,400
Operation of Non-Instructional Services	1,195,863	1,263,151	(67,288)
Extracurricular Activities	545,187	654,830	(109,643)
Interest and Fiscal Charges	464,315	565,289	(100,974)
Total Expenses	<u>27,971,127</u>	<u>27,376,292</u>	<u>594,835</u>
Change in Net Position	536,743	(333,239)	869,982
Net Position at Beginning of Year	<u>55,275,594</u>	<u>55,608,833</u>	<u>(333,239)</u>
Net Position at End of Year	<u>\$55,812,337</u>	<u>\$55,275,594</u>	<u>\$536,743</u>

Program revenues, which are primarily represented by tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues, were \$6,034,129 of total revenues for fiscal year 2014. The increase in program revenues was mainly related to the increase in operating grants, contributions and interest. This was primarily the result of the School District receiving more grant revenue than the prior year.

The School District remains heavily reliant on State funding. Grants and entitlements not restricted for specific purposes made up \$13,249,073 of revenues for governmental activities. The large increase from the prior year was a result of the School District receiving an increase in State Foundation as a result of the new funding formula.

Instruction comprises \$17,257,175 of governmental activities program expenses. Support service expenses make up \$8,508,587 of governmental activities expenses. There were significant decreases in pupils and instructional staff expenditures when compared to fiscal year 2013 as a result of teachers retiring and being replaced with lower paid staff.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

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

**The School District's Funds**

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$28,442,952 and expenditures of \$27,808,088. The net change in fund balance for the general fund increased \$469,535. This was due mostly to receiving greater intergovernmental revenues as a result of an increase in overall state funding.

The Debt Service Fund saw an increase of \$180,296. This is a result of the School District collecting more property tax revenues than what was required to meet its annual debt obligations.

**General Fund - Budget Highlights**

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

During the course of fiscal year 2014, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 14, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, the original budget basis revenue was \$23,203,028 with a final budget estimate of \$23,917,805. The increase of \$714,777 was primarily due to an increase in intergovernmental revenue. Actual revenues were slightly higher than the final budget estimates.

Original budget basis appropriations were \$21,389,976 with final budget basis appropriations of \$22,830,005. The variance of \$1,440,029 was due to large increases in regular and special instruction offset by an overall decrease in the remaining expenditures. The School District's actual expenditures were \$34,200 below final budget estimates due mainly to decreases in regular instruction, which was insignificant.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2014, the School District had \$45,821,295 invested in capital assets (net of accumulated depreciation), a decrease of \$137,268. This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles and textbooks. Net capital assets decreased \$647,411 from the prior fiscal year. This was due to depreciation expense for the current fiscal year being significantly larger than additions. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

***Debt***

At June 30, 2014, the School District had \$9,651,320 in bonds outstanding, \$505,000 of which is due within one year. Table 3 summarizes bonds outstanding at fiscal year-end 2014 and 2013:

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

	2014	2013
General Obligation Bonds:		
School Improvement Bonds	\$4,265,000	\$4,380,000
School Improvement Refunding Bonds	5,055,000	5,420,000
Premium on Debt Issue	200,074	214,365
Accretion on Capital Appreciation Bonds	131,246	85,184
Total	\$9,651,320	\$10,099,549

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

**Contacting the School District's Financial Management**

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

**Hillsboro City School District**

Statement of Net Position

June 30, 2014

	Governmental Activities
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$11,141,681
Inventory Held for Resale	5,589
Materials and Supplies Inventory	1,069
Accrued Interest Receivable	13,138
Accounts Receivable	80,727
Intergovernmental Receivable	405,703
Property Taxes Receivable	6,786,420
Income Taxes Receivable	997,380
Capital Assets:	
Land and Construction in Progress	1,948,740
Depreciable Capital Assets, Net	<u>53,949,557</u>
<i>Total Assets</i>	<u>75,330,004</u>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred Charge on Refunding	<u>114,072</u>
<b><u>Liabilities:</u></b>	
Accounts Payable	112,739
Accrued Wages and Benefits Payable	1,837,694
Contracts Payable	143,950
Intergovernmental Payable	387,744
Accrued Interest Payable	32,466
Long-Term Liabilities:	
Due Within One Year	683,098
Due In More Than One Year	<u>10,596,008</u>
<i>Total Liabilities</i>	<u>13,793,699</u>
<b><u>Deferred Inflows of Resources</u></b>	
Property Taxes	<u>5,838,040</u>
<b><u>Net Position:</u></b>	
Net Investment in Capital Assets	45,821,295
Restricted for:	
Debt Service	2,155,815
Capital Projects	674,693
Other Purposes	2,292,358
Library Materials and Service:	
Expendable	105
Nonexpendable	5,006
Unrestricted	<u>4,863,065</u>
<i>Total Net Position</i>	<u>\$55,812,337</u>

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
<b><u>Governmental Activities:</u></b>					
Instruction:					
Regular	\$12,221,609	\$1,114,789	\$202,854	\$0	(\$10,903,966)
Special	4,547,146	328,168	2,508,401	0	(1,710,577)
Vocational	476,776	59,667	165,967	0	(251,142)
Student Intervention Services	11,644	0	2,200	0	(9,444)
Support Services:					
Pupils	1,133,125	0	0	0	(1,133,125)
Instructional Staff	656,946	0	123,825	0	(533,121)
Administration	1,964,963	0	0	0	(1,964,963)
Fiscal	575,392	0	0	0	(575,392)
Business	6,178	0	0	0	(6,178)
Operation and Maintenance of Plant	2,233,050	12,000	0	12,954	(2,208,096)
Pupil Transportation	1,843,592	0	43,527	0	(1,800,065)
Central	95,341	0	4,500	0	(90,841)
Operation of Non-Instructional Services:					
Food Service Operations	1,191,897	321,754	872,269	0	2,126
Other	3,966	0	76,367	0	72,401
Extracurricular Activities	545,187	146,943	37,944	0	(360,300)
Interest and Fiscal Charges	464,315	0	0	0	(464,315)
<b>Total Governmental Activities</b>	<b>\$27,971,127</b>	<b>\$1,983,321</b>	<b>\$4,037,854</b>	<b>\$12,954</b>	<b>(21,936,998)</b>

**General Revenues:**

Property Taxes Levied for:	
General Purposes	5,386,134
Debt Service	963,911
Facility Maintenance	112,290
Income Taxes	2,421,800
Grants and Entitlements not Restricted to Specific Programs	13,249,073
Contributions and Donations	5,556
Investment Earnings	66,472
Miscellaneous	268,505
<b>Total General Revenues</b>	<b>22,473,741</b>
<b>Change in Net Position</b>	<b>536,743</b>
<b>Net Position at Beginning of Year</b>	<b>55,275,594</b>
<b>Net Position at End of Year</b>	<b>\$55,812,337</b>

See accompanying notes to the basic financial statements



**Hillsboro City School District**

Balance Sheet  
Governmental Funds  
June 30, 2014

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Assets:</u></b>				
Equity in Pooled Cash and Cash Equivalents	\$5,894,873	\$2,045,515	\$2,997,418	\$10,937,806
Receivables:				
Property Taxes	5,656,952	1,011,244	118,224	6,786,420
Income Taxes	997,380	0	0	997,380
Accounts	80,727	0	0	80,727
Intergovernmental	30,172	0	375,531	405,703
Accrued Interest	13,138	0	0	13,138
Interfund	34,001	0	0	34,001
Materials and Supplies Inventory	0	0	1,069	1,069
Inventory Held for Resale	0	0	5,589	5,589
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	203,875	0	0	203,875
Advances to Other Funds	15,000	0	0	15,000
<i>Total Assets</i>	<u>\$12,926,118</u>	<u>\$3,056,759</u>	<u>\$3,497,831</u>	<u>\$19,480,708</u>
<b><u>Liabilities:</u></b>				
Accounts Payable	\$107,272	\$0	\$5,467	\$112,739
Accrued Wages and Benefits Payable	1,647,279	0	190,415	1,837,694
Contracts Payable	0	0	143,950	143,950
Intergovernmental Payable	352,359	0	35,385	387,744
Interfund Payable	0	0	34,001	34,001
Advances from Other Funds	0	0	15,000	15,000
<i>Total Liabilities</i>	<u>2,106,910</u>	<u>0</u>	<u>424,218</u>	<u>2,531,128</u>
<b><u>Deferred Inflows of Resources</u></b>				
Property Taxes	4,868,079	868,478	101,483	5,838,040
Unavailable Revenue	728,918	105,109	244,109	1,078,136
<i>Total Deferred Inflows of Resources</i>	<u>5,596,997</u>	<u>973,587</u>	<u>345,592</u>	<u>6,916,176</u>
<b><u>Fund Balances:</u></b>				
Nonspendable	15,000	0	6,069	21,069
Restricted	127,923	2,083,172	2,735,223	4,946,318
Committed	213,319	0	0	213,319
Assigned	261,693	0	0	261,693
Unassigned (Deficit)	4,604,276	0	(13,271)	4,591,005
<i>Total Fund Balances</i>	<u>5,222,211</u>	<u>2,083,172</u>	<u>2,728,021</u>	<u>10,033,404</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$12,926,118</u>	<u>\$3,056,759</u>	<u>\$3,497,831</u>	<u>\$19,480,708</u>

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2014

**Total Governmental Fund Balances** \$10,033,404

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

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

Land	555,964	
Construction in progress	1,392,776	
Other capital assets	71,679,976	
Accumulated depreciation	<u>(17,730,419)</u>	
Total capital assets		55,898,297

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

Delinquent property taxes	699,629	
Income taxes	133,678	
Intergovernmental	231,691	
Investment earnings	<u>13,138</u>	
		1,078,136

Deferred outflows of resources include deferred charges on refunding which do not provide current financial resources and, therefore are not reported in the funds. 114,072

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (32,466)

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

General Obligation Bonds payable	(9,320,000)	
Premium on debt issuance	(200,074)	
Accretion on capital appreciation bonds	(131,246)	
Capital leases	(671,000)	
Compensated absences	<u>(956,786)</u>	
Total liabilities		<u>(11,279,106)</u>

**Net Position of Governmental Activities** \$55,812,337

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2014

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Revenues:</u></b>				
Property Taxes	\$5,302,319	\$948,366	\$110,460	\$6,361,145
Income Taxes	2,440,082	0	0	2,440,082
Intergovernmental	14,430,078	138,528	2,698,816	17,267,422
Investment Earnings	64,752	0	1,271	66,023
Tuition and Fees	1,491,674	0	0	1,491,674
Extracurricular Activities	40,970	0	105,973	146,943
Rentals	6,000	0	0	6,000
Customer Sales and Service	10,950	0	327,754	338,704
Contributions and Donations	5,556	0	50,898	56,454
Miscellaneous	226,249	0	42,256	268,505
<b>Total Revenues</b>	<b>24,018,630</b>	<b>1,086,894</b>	<b>3,337,428</b>	<b>28,442,952</b>
<b><u>Expenditures:</u></b>				
Current:				
Instruction:				
Regular	10,626,998	0	189,493	10,816,491
Special	3,170,525	0	1,281,904	4,452,429
Vocational	470,215	0	193	470,408
Student Intervention Services	10,206	0	1,438	11,644
Support Services:				
Pupils	1,129,627	0	0	1,129,627
Instructional Staff	630,107	0	139,221	769,328
Board of Education	43,354	0	0	43,354
Administration	1,832,891	0	0	1,832,891
Fiscal	534,638	34,364	3,705	572,707
Business	6,178	0	0	6,178
Operation and Maintenance of Plant	2,010,903	0	89,744	2,100,647
Pupil Transportation	1,640,005	0	111,981	1,751,986
Central	93,356	0	0	93,356
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,128,277	1,128,277
Other	8,386	0	1,409	9,795
Extracurricular Activities	363,211	0	189,146	552,357
Capital Outlay	0	0	1,137,378	1,137,378
Debt Service:				
Principal Retirement	0	504,000	0	504,000
Interest and Fiscal Charges	0	425,235	0	425,235
<b>Total Expenditures</b>	<b>22,570,600</b>	<b>963,599</b>	<b>4,273,889</b>	<b>27,808,088</b>
Excess of Revenues Over (Under) Expenditures	1,448,030	123,295	(936,461)	634,864
<b><u>Other Financing Sources (Uses):</u></b>				
Proceeds from Sale of Capital Assets	4,018	0	0	4,018
Transfers In	0	57,001	925,512	982,513
Transfers Out	(982,513)	0	0	(982,513)
<b>Total Other Financing Sources (Uses)</b>	<b>(978,495)</b>	<b>57,001</b>	<b>925,512</b>	<b>4,018</b>
<b>Net Change in Fund Balances</b>	<b>469,535</b>	<b>180,296</b>	<b>(10,949)</b>	<b>638,882</b>
<b>Fund Balances at Beginning of Year</b>	<b>4,752,676</b>	<b>1,902,876</b>	<b>2,738,970</b>	<b>9,394,522</b>
<b>Fund Balances at End of Year</b>	<b>\$5,222,211</b>	<b>\$2,083,172</b>	<b>\$2,728,021</b>	<b>\$10,033,404</b>

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2014

**Net Change in Fund Balances - Total Governmental Funds** \$638,882

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

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

Capital assets additions	361,450	
Construction in progress additions	1,173,667	
Depreciation expense	<u>(2,153,137)</u>	
Excess of depreciation over capital outlay expense		(618,020)

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

Proceeds from sale of capital assets	(4,018)	
Loss on disposal of capital assets	<u>(25,373)</u>	
		(29,391)

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

Delinquent property taxes	101,190	
Income taxes	(18,282)	
Intergovernmental	(19,707)	
Investment earnings	<u>1,717</u>	
		64,918

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

Bond payments	480,000	
Capital lease payments	<u>24,000</u>	
		504,000

Amortization of bond premiums, deferred charges on the refunding of debt, accretion on bonds, as well as accrued interest payable on the bonds are not reported in the funds, but is allocated as an expense over the life of the debt in the Statement of Activities.

Decrease in accrued interest payable	839	
Amortization of bond premium	14,291	
Amortization of deferred charge on refunding	(8,148)	
Accretion on capital appreciation bonds	<u>(46,062)</u>	
		(39,080)

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

Decrease in compensated absences payable	15,434	
--	--------	--

**Change in Net Position of Governmental Activities** \$536,743

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property Taxes	\$5,590,040	\$5,284,751	\$5,284,751	\$0
Income Taxes	2,560,401	2,420,569	2,420,569	0
Intergovernmental	13,428,344	14,463,085	14,463,085	0
Interest	42,981	46,293	49,885	3,592
Tuition and Fees	1,384,954	1,491,674	1,491,674	0
Extracurricular Activities	38,039	40,970	40,970	0
Customer Sales and Services	10,167	10,950	10,950	0
Rent	5,571	6,000	6,000	0
Gifts and Donations	5,159	5,556	5,556	0
Miscellaneous	137,372	147,957	147,957	0
<b>Total Revenues</b>	<b>23,203,028</b>	<b>23,917,805</b>	<b>23,921,397</b>	<b>3,592</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	10,048,112	10,724,576	10,705,791	18,785
Special	2,841,616	3,032,921	3,032,921	0
Vocational	448,044	478,208	478,208	0
Student Intervention Services	3,358	3,584	3,584	0
<b>Support Services:</b>				
Pupils	1,048,971	1,119,591	1,119,591	0
Instructional Staff	677,714	723,339	714,338	9,001
Board of Education	40,795	43,541	43,541	0
Administration	1,752,807	1,870,626	1,870,499	127
Fiscal	508,073	542,463	542,463	0
Business	5,788	6,178	6,178	0
Operation and Maintenance of Plant	2,003,102	2,137,950	2,131,663	6,287
Pupil Transportation	1,566,968	1,672,459	1,672,459	0
Central	92,441	98,664	98,664	0
<b>Operation of Non-Instructional Services:</b>				
Community Services	7,851	8,386	8,386	0
Extracurricular Activities	344,336	367,519	367,519	0
<b>Total Expenditures</b>	<b>21,389,976</b>	<b>22,830,005</b>	<b>22,795,805</b>	<b>34,200</b>
<b>Excess of Revenues Over Expenditures</b>	<b>1,813,052</b>	<b>1,087,800</b>	<b>1,125,592</b>	<b>37,792</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets	4,018	4,018	4,018	0
Advances In	10,069	10,069	10,069	0
Refund of Prior Year Expenditures	24,373	24,373	24,373	0
Transfers Out	(982,513)	(982,513)	(982,513)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(944,053)</b>	<b>(944,053)</b>	<b>(944,053)</b>	<b>0</b>
<b>Net Change in Fund Balance</b>	<b>868,999</b>	<b>143,747</b>	<b>181,539</b>	<b>37,792</b>
<b>Fund Balance at Beginning of Year</b>	<b>5,446,851</b>	<b>5,446,851</b>	<b>5,446,851</b>	<b>0</b>
<b>Prior Year Encumbrances Appropriated</b>	<b>160,227</b>	<b>160,227</b>	<b>160,227</b>	<b>0</b>
<b>Fund Balance at End of Year</b>	<b>\$6,476,077</b>	<b>\$5,750,825</b>	<b>\$5,788,617</b>	<b>\$37,792</b>

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2014

	Private Purpose Trust	Agency
<b><u>Assets:</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$12,723	\$67,628
<b><u>Liabilities:</u></b>		
Undistributed Monies	0	\$67,628
<b><u>Net Position:</u></b>		
Held in Trust for Scholarships	\$12,723	

See accompanying notes to the basic financial statements

**Hillsboro City School District**  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2014

	Private Purpose Trust
	Scholarships
<b><u>Additions:</u></b>	\$0
<b><u>Deductions:</u></b>	
Payments in Accordance with Trust Agreements	875
<i>Change in Net Position</i>	(875)
<i>Net Position at Beginning of Year</i>	13,598
<i>Net Position at End of Year</i>	\$12,723

See accompanying notes to the basic financial statements

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**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

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

*Reporting Entity:*

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

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

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

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

Jointly Governed Organizations:

Miami Valley Educational Computer Association  
Coalition of Rural and Appalachian Schools

Insurance Purchasing Pool:

Ohio SchoolComp Group Retrospective Rating Program

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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

*Government-wide Financial Statements*

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

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

*Fund Financial Statements*

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

**Fund Accounting**

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

HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Governmental Funds*

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

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

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

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

*Fiduciary Funds:*

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

**Measurement Focus**

*Government-wide Financial Statements:*

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Fund Financial Statements:*

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

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

**Basis of Accounting**

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

*Revenues - Exchange and Non-exchange Transactions:*

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

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

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Deferred Outflows/Inflows of Resources:*

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, income taxes, interest and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

*Expenses/Expenditures:*

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

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

**Cash and Cash Equivalents**

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

During fiscal year 2014, the School District's investments were limited to Federal National Mortgage Association Notes and negotiable certificates of deposit. Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2014 amounted to \$64,752, which includes \$29,169 assigned from other School District funds.

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Restricted Assets**

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

**Interfund Balances**

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

**Inventory**

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

**Capital Assets**

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

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

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

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

HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Compensated Absences**

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

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

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

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

**Fund Balance**

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

*Nonspendable*

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

*Restricted*

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Committed*

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

*Assigned*

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education or a School District official delegated that authority by resolution or by State Statute. State Statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

*Unassigned*

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

**Net Position**

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

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



**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Internal Activity**

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

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

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

**Budgetary Process**

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

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

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

**Bond Premiums and Compounded Interest on Capital Appreciation Bonds**

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Deferred Charge on Refunding**

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

**Estimates**

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

**3. FUND BALANCES**

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

Fund Balances	General	Debt Service	Nonmajor Governmental Funds	Total
<b><i>Nonspendable</i></b>				
Long-Term Advances	\$15,000	\$0	\$0	\$15,000
Inventory	0	0	1,069	1,069
Library Materials	0	0	5,000	5,000
<b><i>Total Nonspendable</i></b>	<b>15,000</b>	<b>0</b>	<b>6,069</b>	<b>21,069</b>
<b><i>Restricted for</i></b>				
Debt Service	0	2,083,172	0	2,083,172
Food Service Operations	0	0	713,438	713,438
Miscellaneous Grants	0	0	19,897	19,897
Set Asides	127,923	0	0	127,923
Library Services	0	0	111	111
Capital Projects	0	0	674,693	674,693
Capital Maintenance	0	0	1,327,084	1,327,084
<b><i>Total Restricted</i></b>	<b>127,923</b>	<b>2,083,172</b>	<b>2,735,223</b>	<b>4,946,318</b>
<b><i>Committed to</i></b>				
Termination Benefits	213,319	0	0	213,319
<b><i>Assigned to</i></b>				
Purchases on Order	261,693	0	0	261,693
<b><i>Unassigned (Deficit)</i></b>	<b>4,604,276</b>	<b>0</b>	<b>(13,271)</b>	<b>4,591,005</b>
<b><i>Total Fund Balances</i></b>	<b>\$5,222,211</b>	<b>\$2,083,172</b>	<b>\$2,728,021</b>	<b>\$10,033,404</b>

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**4. ACCOUNTABILITY**

At June 30, 2014, the Alternative School, Special Education Part B, Title I School Improvement, and Title I funds had negative fund balances of \$607, \$2,798, \$252, and \$9,614, respectively. The deficits in these funds were created by the recognition of accrued liabilities. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

**5. BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).
6. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statement. These amounts are included as revenue on the GAAP basis operating statement.

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

	Net Change in Fund Balance
GAAP Basis	\$469,535
Adjustments:	
Revenue Accruals	(57,993)
Unreported Cash/Interest:	
Unrecorded Interest	(11,215)
Expenditure Accruals	96,760
Encumbrances	(321,965)
Advances	10,069
Increase in Fair Market	
Value of Investments - 2013	7,300
Increase in Fair Market	
Value of Investments - 2014	(10,952)
Budget Basis	\$181,539

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**6. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**6. DEPOSITS AND INVESTMENTS (Continued)**

Cash on Hand

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

Investments

As of June 30, 2014, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Percent of Total Investments</u>
Federal National Mortgage Association			
Notes	\$214,289	3 to 4 years	5.26%
Negotiable Certificates of Deposit	2,610,366	0 to 2 years	64.13%
Negotiable Certificates of Deposit	721,745	3 to 4 years	17.73%
Negotiable Certificates of Deposit	524,313	5 years	12.88%
Total Investments	<u>\$4,070,713</u>		

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

**7. PROPERTY TAXES**

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

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**7. PROPERTY TAXES (Continued)**

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien December 31, 2012, were levied after April 1, 2013 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Highland County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes that are measurable as of June 30, 2014 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows - property taxes.

The amount available as an advance at June 30, 2014 was \$206,771 in the General Fund, \$37,657 in the Debt Service Fund, and \$4,323 in the Nonmajor Governmental Funds. The amount available as an advance at June 30, 2013 was \$189,203 in the General Fund, \$34,509 in the Debt Service Fund, and \$3,962 in the Nonmajor Governmental Funds.

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

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second - Half Collections		2014 First - Half Collections	
	Amount	Percentage	Amount	Percentage
Agricultural/Residential and Other Real Estate	\$264,971,410	95.07%	\$266,522,260	94.90%
Public Utility Personal	13,752,900	4.93%	14,318,240	5.10%
<b>Total Assessed Value</b>	<b>\$278,724,310</b>	<b>100.00%</b>	<b>\$280,840,500</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$30.85		\$30.85	

HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)

8. INCOME TAX

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

9. RECEIVABLES

Receivables at June 30, 2014, consisted of property taxes, income taxes, accounts (student fees), intergovernmental grants, interest, and interfund. 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. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year.

Intergovernmental receivables consist of the following:

	<u>Amounts</u>
<u>Governmental Activities:</u>	
Alternative Education Grant	\$5,339
Idea - B Grant	115,421
Title I - School Improvement Grant	16,076
Title I Grant	152,845
Title II - A Grant	64,564
Title VI - B Grant	21,286
SERS Receivable	28,748
Miscellaneous Receivables	<u>1,424</u>
Total Intergovernmental Receivables	<u><u>\$405,703</u></u>

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**10. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	<u>Balance at 6/30/13</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/14</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$555,964	\$0	\$0	\$555,964
Construction in Progress	219,109	1,173,667	0	1,392,776
Total Capital Assets Not Being Depreciated	<u>775,073</u>	<u>1,173,667</u>	<u>0</u>	<u>1,948,740</u>
Capital Assets Being Depreciated:				
Land Improvements	2,618,891	85,790	0	2,704,681
Buildings and Improvements	62,273,278	0	0	62,273,278
Furniture, Fixtures and Equipment	3,307,294	182,563	0	3,489,857
Vehicles	2,307,441	93,097	(184,501)	2,216,037
Textbooks	996,123	0	0	996,123
Totals Capital Assets Being Depreciated	<u>71,503,027</u>	<u>361,450</u>	<u>(184,501)</u>	<u>71,679,976</u>
Less Accumulated Depreciation:				
Land Improvements	(1,260,886)	(140,216)	0	(1,401,102)
Buildings and Improvements	(10,243,726)	(1,560,251)	0	(11,803,977)
Furniture, Fixtures and Equipment	(1,756,079)	(278,770)	0	(2,034,849)
Vehicles	(1,475,579)	(173,900)	155,110	(1,494,369)
Textbooks	(996,122)	0	0	(996,122)
Total Accumulated Depreciation	<u>(15,732,392)</u>	<u>(2,153,137) *</u>	<u>155,110</u>	<u>(17,730,419)</u>
Total Capital Assets Being Depreciated, Net	<u>55,770,635</u>	<u>(1,791,687)</u>	<u>(29,391)</u>	<u>53,949,557</u>
Governmental Activities Capital Assets, Net	<u>\$56,545,708</u>	<u>(\$618,020)</u>	<u>(\$29,391)</u>	<u>\$55,898,297</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,429,395
Special	61,666
Vocational	14,867
Support Services:	
Instructional Staff	18,180
Administration	80,532
Fiscal	756
Operation and Maintenance of Plant	249,399
Pupil Transportation	190,524
Operation of Non-Instructional Services - Food Service Operations	53,370
Extracurricular Activities	54,448
Total Depreciation Expense	<u>\$2,153,137</u>



**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**11. RISK MANAGEMENT**

**Property and Liability**

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

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

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

**Employee Medical Benefits**

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

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

**Workers' Compensation**

For fiscal year 2014, the School District participated in the Ohio SchoolComp Group Retrospective Rating Program (GRRP), an insurance purchasing pool (See Note 21). The intent of the GRRP is to reward participants that are able to keep their claims costs below a predetermined amount. As part of the GRRP, school districts join together as a group. Each school district continues to pay its own individual premium to the State. However, each school district has the opportunity to receive retrospective premium adjustments (refunds or assessments) at 12, 24, and 36 months after the end of the policy year. At the end of each policy year, the Bureau of Workers' Compensation (BWC) will take a snap-shot of the incurred claims losses (indemnity, medical, and reserves) for the entire group and calculate the group's retrospective premium. If the retrospective premium that is calculated is less than the group's total standard premium, the participants will receive a refund. However, if the retrospective premium is greater than the group's total standard premium, an assessment will be levied by BWC. Each group limits the maximum assessment by selecting a premium cap between five percent and 100 percent of merit rated premium. Participation in the GRRP is limited to school districts that can meet the GRRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRRP.

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**12. DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$441,870, \$414,989 and \$402,279, respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

**State Teachers Retirement System of Ohio**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 9.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

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

Funding Policy – Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate was increased one percent July 1, 2013, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan was \$1,392,259 for the fiscal year ended June 30, 2014, \$1,377,081 for the fiscal year ended June 30, 2013, and \$1,279,824 for the fiscal year ended June 30, 2012. For fiscal year 2014, 83.14 percent has been contributed for the DB Plan and Combined Plan with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2014 were \$10,964 made by the School District and \$8,615 made by the plan members. In addition, member contributions of \$20,617 were made for fiscal year 2014 for the defined contribution portion of the Combined Plan, with \$26,240 contributed by the School District.

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2014, one member of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**13. POST-EMPLOYMENT BENEFITS**

**School Employees Retirement System**

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**13. POST-EMPLOYMENT BENEFITS (Continued)**

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2014, this amount was \$20,250. During fiscal year 2014, the School District paid \$51,044 in surcharge.

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

The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$55,766, \$57,283, and \$63,393, respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$25,635, \$24,180, and \$23,757, respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

**State Teachers Retirement System of Ohio**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to one percent of covered payroll to postemployment health care. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$107,097, \$105,929, and \$98,448, respectively. For fiscal year 2014, 83.14 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**14. EMPLOYEE BENEFITS**

**Compensated Absences**

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

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

**15. CAPITALIZED LEASES – LESSEE DISCLOSURE**

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

Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments totaled \$24,000 during fiscal year 2014.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Asset:			
Buildings and Improvements	\$818,000	\$130,847	\$687,153

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**15. CAPITALIZED LEASES – LESSEE DISCLOSURE (Continued)**

Fiscal Year Ending June 30,	Total Payments
2015	\$55,500
2016	56,296
2017	55,044
2018	54,771
2019	54,452
2020-2024	274,955
2025-2029	273,792
2030-2032	161,566
Total Minimum Lease Payments	986,376
Less Amount Representing Interest and Fees	(315,376)
Present Value of Minimum Lease Payments	\$671,000

**16. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2014 were as follows:

	Amount Outstanding 6/30/13	Additions	Deductions	Amount Outstanding 6/30/14	Amounts Due in One Year
<i>Governmental Activities:</i>					
General Obligation Bonds:					
School Improvements - 2001 3.25%	\$1,775,000	\$0	\$0	\$1,775,000	\$320,000
School Improvements - 2006 2.85%	2,605,000	0	115,000	2,490,000	120,000
School Improvements Refunding -					
2011 3.5%-4.15%	4,985,000	0	365,000	4,620,000	65,000
Capital Appreciation Bonds 3.62%-3.86%	435,000	0	0	435,000	0
Premium on Refunding Bonds	214,365	0	14,291	200,074	0
Accretion on Capital Appreciation Bonds	85,184	46,062	0	131,246	0
Total General Obligation Bonds	10,099,549	46,062	494,291	9,651,320	505,000
Capital Leases	695,000	0	24,000	671,000	25,000
Compensated Absences	972,220	65,052	80,486	956,786	153,098
Total Governmental Activities					
Long-Term Liabilities	\$11,766,769	\$111,114	\$598,777	\$11,279,106	\$683,098

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**16. LONG-TERM OBLIGATIONS (Continued)**

School Improvement Bonds 2001

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

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

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

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

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

In June 2011, the School District issued \$5,830,000 in school improvement bonds for the purpose of refunding a portion of the 2001 School Improvement Bonds. \$5,395,000 were serial bonds and \$435,000 were capital appreciation bonds. This was an advance refunding. The bonds were issued for an 18 year period, with final maturity in December 2029.

The School District defeased the 2001 School Improvement Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments due on the old bonds. Accordingly, the trust assets and the liability of the defeased bonds are not included in the School District's financial statements. As of June 30, 2014, the defeased bonds were paid in full.

The capital appreciation bonds will mature in fiscal years 2021 and 2022. The maturity amount of the capital appreciation bonds will be \$940,000. For fiscal year 2014, the capital appreciation bonds were accreted \$46,062.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**16. LONG-TERM OBLIGATIONS (Continued)**

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

The School District's overall legal debt margin was \$18,038,817 with an unvoted debt margin of \$280,841 at June 30, 2014.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2014, are as follows:

Fiscal Year Ending June 30,	School Improvement Bonds				
	Serial Bonds Principal	Serial Bonds Interest	Capital Appreciation Principal	Capital Appreciation Interest	Total
2015	\$505,000	\$379,179	\$0	\$0	\$884,179
2016	525,000	357,758	0	0	882,758
2017	545,000	332,585	0	0	877,585
2018	580,000	303,261	0	0	883,261
2019	605,000	271,850	0	0	876,850
2020-2024	2,275,000	1,103,366	435,000	505,000	4,318,366
2025-2029	3,850,000	423,736	0	0	4,273,736
Total	<u>\$8,885,000</u>	<u>\$3,171,735</u>	<u>\$435,000</u>	<u>\$505,000</u>	<u>\$12,996,735</u>

**17. INTERFUND ACTIVITY**

**Interfund Transfers**

Transfers made during the fiscal year ended June 30, 2014, were as follows:

Transfer From	Transfer To		
	Debt Service	Nonmajor Governmental Funds	Total
General Fund	<u>\$57,001</u>	<u>\$925,512</u>	<u>\$982,513</u>

Transfers were made from the General Fund to the Debt Service Fund for debt payments. Transfers were also made from the General Fund to Nonmajor Governmental Funds to move unrestricted balances to support programs and projects accounted for in other funds.



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**17. INTERFUND ACTIVITY (Continued)**

**Interfund Balances**

Interfund balances at June 30, 2014, consist of the following individual interfund receivables and payable:

	Payable	Receivable
		Nonmajor Governmental Funds
	General Fund	\$34,001

Advancing monies to other funds is necessary due to timing difference in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

**Advances To/From Other Funds**

As of June 30, 2014, receivables and payables that resulted from various long-term advances were as follows:

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

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

**18. SET-ASIDE CALCULATIONS**

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

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**18. SET-ASIDE CALCULATIONS (Continued)**

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

	Capital Acquisition	Budget Stabilization
Set-aside Balance as of June 30, 2013	\$88,848	\$75,952
Current Fiscal Year Set-aside Requirement	446,127	0
Prior Year Offset from Bond Proceeds	(187,428)	0
Current Fiscal Year Qualifying Expenditures	(219,624)	0
Set-aside Balance Carried		
Forward to Future Fiscal Years	\$127,923	\$75,952
Set-aside Balance		
as of June 30, 2014	\$127,923	\$75,952

The total reserve balance at the end of the fiscal year was \$203,875.

**19. CONTINGENCIES**

**Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2014.

**Litigation**

The School District is not party to any legal proceeding.

**20. JOINTLY GOVERNED ORGANIZATIONS**

**Miami Valley Educational Computer Association**

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**20. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts, except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The Board exercises total control over the operations of the consortium including budgeting, appropriating, contracting and designating management. Each School District and Educational Service Center's degree of control is limited to its representation on the Board. The School District paid MVECA \$84,024 for services provided during fiscal year 2014. Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

**Coalition of Rural and Appalachian Schools**

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

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

**21. INSURANCE PURCHASING POOL**

**Ohio SchoolComp Group Retrospective Rating Program**

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

**22. SIGNIFICANT COMMITMENTS**

**Encumbrances**

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

General fund	\$321,965
Nonmajor Governmental Funds	667,627
Total	<u>\$989,592</u>

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**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>					
<i>Passed through Ohio Department of Education:</i>					
National School Breakfast Program	10.553	\$ 203,259	-	\$ 203,259	-
National School Lunch	10.555	586,644	78,259	586,644	78,259
<i>Total Nutrition Cluster</i>		789,903	78,259	789,903	78,259
Farm to School Grant -FY 13	10.574	-	-	193	-
<b>Total U.S. Department of Agriculture</b>		<b>789,903</b>	<b>78,259</b>	<b>790,096</b>	<b>78,259</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>					
<i>Passed through Ohio Department of Education:</i>					
Title 1 Cluster					
Title 1 - FY 13	84.010	86,862	-	86,862	-
Title 1 - FY 14	84.010	839,820	-	821,872	-
Title 1 - School Improvement	84.010	38,924	-	43,024	-
<i>Total Title I</i>		965,606	-	951,758	-
Special Education Cluster:					
Special Education Grants to States					
IDEA Part B - FY13	84.027	68,532	-	68,532	-
IDEA Part B - FY14		375,599	-	358,394	-
		444,131	-	426,926	-
Preschool Subsidy - FY 14	84.173	4,538	-	4,538	-
<i>Total Special Education Cluster</i>		448,669	-	431,464	-
Title II-A Improving Teacher Quality - FY13	84.367	4,655	-	9,348	-
Title II-A Improving Teacher Quality - FY14		114,510	-	144,407	-
		119,165	-	153,755	-
Small, Rural School Achievement Program FY13	84.358	-	-	3,834	-
Small, Rural School Achievement Program FY14		51,358	-	44,358	-
		51,358	-	48,192	-
<b><i>Passed through Great Oaks Institute of Technology and Career Development</i></b>					
Career Education - FY14	84.048	6,000	-	6,000	-
<i>Total Additional Programs:</i>		6,000	-	6,000	-
<b>Total Department of Education</b>		<b>1,590,798</b>	<b>-</b>	<b>1,591,169</b>	<b>-</b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>		<b>\$ 2,380,701</b>	<b>\$ 78,259</b>	<b>\$ 2,381,265</b>	<b>\$ 78,259</b>

The accompanying notes to this schedule are an integral part of this schedule.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 26, 2015.

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 26, 2015





# Dave Yost • Auditor of State

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

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

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Hillsboro City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Hillsboro City School District's major federal programs for the year ended June 30, 2014. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the Hillsboro City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2014.

**Report on Internal Control over Compliance**

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

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

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

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



**Dave Yost**  
Auditor of State

Columbus, Ohio

March 26, 2015

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014**

**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):	Special Education Cluster: IDEA Part B CFDA #84.027 Preschool Subsidy CFDA #84.173 Child Nutrition Cluster: National School Breakfast CFDA #10.553 National School Lunch CFDA #10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

**HILLSBORO CITY SCHOOL DISTRICT**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 9, 2015**