



Dave Yost • Auditor of State

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

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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, 2015, 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, 2015, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also *Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions 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 also 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 the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 7, 2016

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Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
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, 2015. 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 and deferred outflows of resources of the Hillsboro City School District exceeded its liabilities and deferred inflows of resources at June 30, 2015 by \$23,714,737.
- Governmental activities general revenues accounted for \$24,331,629 of total revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$6,107,059 of total governmental revenues of \$30,438,688.
- The School District had \$28,376,018 in expenses related to governmental activities; only \$6,107,059 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 \$24,331,629 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.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2015?” The Statement of Net Position and the Statement of Activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

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

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 11. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District’s major funds.

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

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

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

The School District as a Whole

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

Table 1 provides a summary of the School District's net position for fiscal years 2015 and 2014:

(Table 1)
Net Position
Governmental Activities

	2015	2014	Change in Net Position
Assets:			
Current and Other Assets	\$21,030,412	\$19,431,707	\$1,598,705
Capital Assets, Net	54,686,389	55,898,297	(1,211,908)
Total Assets	<u>75,716,801</u>	<u>75,330,004</u>	<u>386,797</u>
Deferred Outflows of Resources:			
Deferred Charge on Refunding	250,479	114,072	136,407
Pension	2,186,058	1,759,994	426,064
Total Deferred Outflows of Resources	<u>2,436,537</u>	<u>1,874,066</u>	<u>562,471</u>
Liabilities:			
Other Liabilities	2,365,159	2,514,593	(149,434)
Long-Term Liabilities			
Due Within One Year	777,213	683,098	94,115
Due In More Than One Year:			
Net Pension Liability	30,233,467	35,920,264	(5,686,797)
Other Amounts	10,214,282	10,596,008	(381,726)
Total Liabilities	<u>43,590,121</u>	<u>49,713,963</u>	<u>(6,123,842)</u>
Deferred Inflows of Resources:			
Property Taxes	5,386,564	5,838,040	(451,476)
Pension	5,461,916	0	5,461,916
Total Deferred Inflows of Resources	<u>10,848,480</u>	<u>5,838,040</u>	<u>5,010,440</u>
Net Position:			
Net Investment in Capital Assets	45,078,071	45,821,295	(743,224)
Restricted	6,725,668	5,127,977	1,597,691
Unrestricted (Deficit)	(28,089,002)	(29,297,205)	1,208,203
Total Net Position	<u>\$23,714,737</u>	<u>\$21,652,067</u>	<u>\$2,062,670</u>

*Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited*

During 2015, the School District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

*Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited*

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$55,812,337 to \$21,652,067.

Current and other assets increased due to a large increase in grants and entitlements not restricted to specific programs due to an increase in State foundation monies.

Capital assets decreased \$1,211,908, due primarily to depreciation exceeding additions.

Net investment in capital assets decreased due to current year depreciation exceeding current year additions as wells as making current year debt payments.

Restricted net position increased \$1,597,691. This was mostly due to the \$1.9 million transfer of monies from the General Fund to the Permanent Improvement Capital Projects Fund, which is restricted.

Table 2 shows the changes in net position for fiscal years 2015 and 2014.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

(Table 2)
Changes in Net Position
Governmental Activities

	2015	2014	Change
Revenues:			
Program Revenues:			
Charges for Services and Sales	\$1,924,887	\$1,983,321	(\$58,434)
Operating Grants, Contributions and Interest	4,165,371	4,037,854	127,517
Capital Grants and Contributions	16,801	12,954	3,847
Total Program Revenues	<u>6,107,059</u>	<u>6,034,129</u>	<u>72,930</u>
General Revenues:			
Property Taxes	6,899,005	6,462,335	436,670
Income Taxes	2,540,742	2,421,800	118,942
Grants and Entitlements not Restricted to Specific Programs	14,616,911	13,249,073	1,367,838
Gifts and Donations	14,172	5,556	8,616
Interest	70,181	66,472	3,709
Miscellaneous	190,618	268,505	(77,887)
Total General Revenues	<u>24,331,629</u>	<u>22,473,741</u>	<u>1,857,888</u>
Total Revenues	<u>30,438,688</u>	<u>28,507,870</u>	<u>1,930,818</u>
Program Expenses:			
Instruction	17,246,941	17,257,175	(10,234)
Support Services:			
Pupils and Instructional Staff	2,175,995	1,790,071	385,924
Board of Education, Administration, Fiscal and Business	2,485,890	2,546,533	(60,643)
Operations and Maintenance of Plant	2,327,378	2,233,050	94,328
Pupil Transportation	1,704,118	1,843,592	(139,474)
Central	84,043	95,341	(11,298)
Operation of Non-Instructional Services	1,243,993	1,195,863	48,130
Extracurricular Activities	597,889	545,187	52,702
Interest and Fiscal Charges	509,771	464,315	45,456
Total Expenses	<u>28,376,018</u>	<u>27,971,127</u>	<u>404,891</u>
Change in Net Position	2,062,670	536,743	<u>\$1,525,927</u>
Net Position at Beginning of Year - Restated	21,652,067	N/A	
Net Position at End of Year	<u>\$23,714,737</u>	<u>\$21,652,067</u>	

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,759,994 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$1,250,510. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
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Total 2015 program expenses under GASB 68	\$28,376,018
Pension expense under GASB 68	(1,250,510)
2015 contractually required contribution	<u>1,901,455</u>
Adjusted 2015 program expenses	29,026,963
Total 2014 program expenses under GASB 27	<u>27,971,127</u>
Change in program expenses not related to pension	<u><u>\$1,055,836</u></u>

Program revenues, which are primarily represented by tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues, were \$6,107,059 of total revenues for fiscal year 2015. 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 \$14,616,911 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 \$17,246,941 of governmental activities program expenses. Support service expenses make up \$8,777,424 of governmental activities expenses. There was a large increase in pupils and instructional staff expenditures when compared to fiscal year 2014 as a result of teachers receiving pay raises in fiscal year 2015.

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 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$30,249,287 and expenditures of \$28,315,382. The net change in fund balance for the General Fund increased \$480,176. 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 \$272,577. This is a result of the School District collecting more property tax revenues than what was required to meet its annual debt obligations.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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 2015, 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 20, 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 \$24,923,809 with a final budget estimate of \$25,360,380. The increase of \$436,571 was primarily due to a decrease in budgeted property taxes offset by an increase in budgeted intergovernmental revenue. Actual revenues were slightly higher than the final budget estimates.

Original budget basis appropriations were \$22,170,864 with final budget basis appropriations of \$23,460,531. The variance of \$1,289,667 was due to increases in regular and special instruction as well as small increases in the remaining expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the School District had \$54,686,389 invested in capital assets (net of accumulated depreciation), a decrease of \$1,211,908. This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles and textbooks. For further information regarding the School District's capital assets, refer to Note 11 to the basic financial statements.

Debt

At June 30, 2015, the School District had \$8,815,000 in bonds outstanding, \$575,000 of which is due within one year.

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

Contacting the School District's Financial Management

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

Hillsboro City School District
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$12,319,673
Inventory Held for Resale	11,043
Materials and Supplies Inventory	1,069
Accrued Interest Receivable	8,782
Accounts Receivable	15,473
Intergovernmental Receivable	731,435
Property Taxes Receivable	6,897,696
Income Taxes Receivable	1,045,241
Capital Assets:	
Land and Construction in Progress	2,550,727
Depreciable Capital Assets, Net	<u>52,135,662</u>
<i>Total Assets</i>	<u>75,716,801</u>
<u>Deferred Outflows of Resources:</u>	
Deferred Charge on Refunding	250,479
Pension	<u>2,186,058</u>
<i>Total Deferred Outflows of Resources</i>	<u>2,436,537</u>
<u>Liabilities:</u>	
Accounts Payable	61,448
Accrued Wages and Benefits Payable	1,841,202
Contracts Payable	443
Intergovernmental Payable	435,951
Accrued Interest Payable	26,115
Long-Term Liabilities:	
Due Within One Year	777,213
Due In More Than One Year:	
Net Pension Liability (See Note 13)	30,233,467
Other Amounts	<u>10,214,282</u>
<i>Total Liabilities</i>	<u>43,590,121</u>
<u>Deferred Inflows of Resources:</u>	
Property Taxes	5,386,564
Pension	<u>5,461,916</u>
<i>Total Deferred Inflows of Resources</i>	<u>10,848,480</u>
<u>Net Position:</u>	
Net Investment in Capital Assets	45,078,071
Restricted for:	
Debt Service	2,453,446
Capital Projects	2,068,440
Food Service	788,833
Set Asides	182,449
Classroom Facilities	1,092,964
Other Purposes	134,422
Library Materials and Service:	
Expendable	105
Nonexpendable	5,009
Unrestricted (Deficit)	<u>(28,089,002)</u>
<i>Total Net Position</i>	<u>\$23,714,737</u>

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2015

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$12,513,262	\$1,109,787	\$244,005	\$0	(\$11,159,470)
Special	4,276,470	323,245	2,462,329	0	(1,490,896)
Vocational	449,051	44,079	198,081	0	(206,891)
Student Intervention Services	8,158	0	1,590	0	(6,568)
Support Services:					
Pupils	1,237,241	0	0	0	(1,237,241)
Instructional Staff	938,754	0	168,252	0	(770,502)
Board of Education	40,970	0	0	0	(40,970)
Administration	1,831,008	0	0	0	(1,831,008)
Fiscal	607,804	0	0	0	(607,804)
Business	6,108	0	0	0	(6,108)
Operation and Maintenance of Plant	2,327,378	11,440	0	16,801	(2,299,137)
Pupil Transportation	1,704,118	0	52,294	0	(1,651,824)
Central	84,043	0	4,500	0	(79,543)
Operation of Non-Instructional Services:					
Food Service Operations	1,237,318	292,555	866,355	0	(78,408)
Other	6,675	0	116,900	0	110,225
Extracurricular Activities	597,889	143,781	51,065	0	(403,043)
Interest and Fiscal Charges	509,771	0	0	0	(509,771)
Total Governmental Activities	\$28,376,018	\$1,924,887	\$4,165,371	\$16,801	(22,268,959)

General Revenues:

Property Taxes Levied for:	
General Purposes	5,750,799
Debt Service	1,028,530
Facility Maintenance	119,676
Income Taxes	2,540,742
Grants and Entitlements not Restricted to Specific Programs	14,616,911
Contributions and Donations	14,172
Investment Earnings	70,181
Miscellaneous	190,618
Total General Revenues	24,331,629
Change in Net Position	2,062,670
Net Position at Beginning of Year <i>Restated (See Note 3)</i>	21,652,067
Net Position at End of Year	\$23,714,737

See accompanying notes to the basic financial statements

Hillsboro City School District

Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,750,657	\$2,251,796	\$4,058,819	\$12,061,272
Receivables:				
Property Taxes	5,692,670	1,070,916	134,110	6,897,696
Income Taxes	1,045,241	0	0	1,045,241
Accounts	15,473	0	0	15,473
Intergovernmental	39,474	0	691,961	731,435
Accrued Interest	8,782	0	0	8,782
Interfund	248,082	0	0	248,082
Materials and Supplies Inventory	0	0	1,069	1,069
Inventory Held for Resale	0	0	11,043	11,043
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	258,401	0	0	258,401
Advances to Other Funds	15,000	0	0	15,000
<i>Total Assets</i>	<u>\$13,073,780</u>	<u>\$3,322,712</u>	<u>\$4,897,002</u>	<u>\$21,293,494</u>
<u>Liabilities:</u>				
Accounts Payable	\$33,545	\$0	\$27,903	\$61,448
Accrued Wages and Benefits Payable	1,652,676	0	188,526	1,841,202
Contracts Payable	0	0	443	443
Intergovernmental Payable	398,850	0	37,101	435,951
Interfund Payable	0	0	248,082	248,082
Advances from Other Funds	0	0	15,000	15,000
<i>Total Liabilities</i>	<u>2,085,071</u>	<u>0</u>	<u>517,055</u>	<u>2,602,126</u>
<u>Deferred Inflows of Resources:</u>				
Property Taxes	4,435,688	843,151	107,725	5,386,564
Unavailable Revenue	850,634	123,812	293,091	1,267,537
<i>Total Deferred Inflows of Resources</i>	<u>5,286,322</u>	<u>966,963</u>	<u>400,816</u>	<u>6,654,101</u>
<u>Fund Balances:</u>				
Nonspendable	15,000	0	6,069	21,069
Restricted	182,449	2,355,749	3,988,054	6,526,252
Committed	199,952	0	0	199,952
Assigned	329,352	0	0	329,352
Unassigned (Deficit)	4,975,634	0	(14,992)	4,960,642
<i>Total Fund Balances</i>	<u>5,702,387</u>	<u>2,355,749</u>	<u>3,979,131</u>	<u>12,037,267</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$13,073,780</u>	<u>\$3,322,712</u>	<u>\$4,897,002</u>	<u>\$21,293,494</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, 2015

Total Governmental Fund Balances \$12,037,267

**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	1,994,763	
Other capital assets	71,885,989	
Accumulated depreciation	<u>(19,750,327)</u>	
Total capital assets		54,686,389

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	829,102	
Income taxes	151,208	
Intergovernmental	278,445	
Investment earnings	<u>8,782</u>	
		1,267,537

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.

Deferred Outflows - Pension	2,186,058	
Deferred Inflows - Pension	(5,461,916)	
Net Pension Liability	<u>(30,233,467)</u>	
		(33,509,325)

Deferred outflows of resources include deferred charges on refunding which do not provide current financial resources and, therefore are not reported in the funds. 250,479

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (26,115)

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	(8,815,000)	
Premium on debt issuance	(397,797)	
Accretion on capital appreciation bonds	(202,637)	
Capital leases	(646,000)	
Compensated absences	<u>(930,061)</u>	
Total liabilities		<u>(10,991,495)</u>

Net Position of Governmental Activities \$23,714,737

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, 2015

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$5,642,257	\$1,009,827	\$117,448	\$6,769,532
Income Taxes	2,523,212	0	0	2,523,212
Intergovernmental	15,853,664	138,783	2,688,172	18,680,619
Investment Earnings	60,763	11,059	6,559	78,381
Tuition and Fees	1,469,294	0	0	1,469,294
Extracurricular Activities	31,950	0	111,831	143,781
Rentals	4,940	0	0	4,940
Customer Sales and Service	7,817	0	299,055	306,872
Contributions and Donations	14,172	0	67,866	82,038
Miscellaneous	127,520	3,493	59,605	190,618
Total Revenues	25,735,589	1,163,162	3,350,536	30,249,287
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	11,223,503	0	257,182	11,480,685
Special	3,176,599	0	1,180,399	4,356,998
Vocational	445,790	0	0	445,790
Student Intervention Services	6,327	0	2,021	8,348
Support Services:				
Pupils	1,266,944	0	12	1,266,956
Instructional Staff	891,987	0	173,111	1,065,098
Board of Education	40,970	0	0	40,970
Administration	1,780,875	0	65	1,780,940
Fiscal	569,662	33,987	3,676	607,325
Business	6,108	0	0	6,108
Operation and Maintenance of Plant	1,727,434	0	431,947	2,159,381
Pupil Transportation	1,609,924	0	5,000	1,614,924
Central	83,778	0	0	83,778
Operation of Non-Instructional Services:				
Food Service Operations	11,384	0	1,193,510	1,204,894
Other	0	0	8,017	8,017
Extracurricular Activities	364,944	0	234,866	599,810
Capital Outlay	0	0	601,987	601,987
Debt Service:				
Principal Retirement	0	530,000	0	530,000
Interest and Fiscal Charges	0	453,373	0	453,373
Total Expenditures	23,206,229	1,017,360	4,091,793	28,315,382
Excess of Revenues Over (Under) Expenditures	2,529,360	145,802	(741,257)	1,933,905
<u>Other Financing Sources (Uses):</u>				
Refunding Bonds Issued	0	2,245,000	0	2,245,000
Premium on Refunding Bonds Issued	0	219,867	0	219,867
Payment to Refunded Bond Escrow Agent	0	(2,394,909)	0	(2,394,909)
Transfers In	0	56,817	1,992,367	2,049,184
Transfers Out	(2,049,184)	0	0	(2,049,184)
Total Other Financing Sources (Uses)	(2,049,184)	126,775	1,992,367	69,958
Net Change in Fund Balances	480,176	272,577	1,251,110	2,003,863
Fund Balances at Beginning of Year	5,222,211	2,083,172	2,728,021	10,033,404
Fund Balances at End of Year	\$5,702,387	\$2,355,749	\$3,979,131	\$12,037,267

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, 2015

Net Change in Fund Balances - Total Governmental Funds \$2,003,863

**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	325,423	
Construction in progress additions	601,987	
Depreciation expense	<u>(2,139,318)</u>	
Excess of depreciation over capital outlay expense		(1,211,908)

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	129,473	
Income taxes	17,530	
Intergovernmental	46,754	
Investment earnings	<u>(4,356)</u>	

Total 189,401

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. 1,901,455

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,250,510)

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	505,000	
Payment to refunded bond escrow agent	2,394,909	
Capital lease payments	<u>25,000</u>	

Total 2,924,909

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

Proceeds of bonds	(2,245,000)	
Premium on bonds	<u>(219,867)</u>	

Total (2,464,867)

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	6,351	
Amortization of bond premium	22,144	
Amortization of deferred charge on refunding	(13,502)	
Accretion on capital appreciation bonds	<u>(71,391)</u>	

Total (56,398)

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	<u>26,725</u>	
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Change in Net Position of Governmental Activities \$2,062,670

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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$8,456,100	\$5,282,690	\$5,282,690	\$0
Income Taxes	2,044,659	2,492,881	2,492,881	0
Intergovernmental	12,995,536	15,844,362	15,844,362	0
Interest	49,179	59,960	60,568	608
Tuition and Fees	1,205,114	1,469,294	1,469,294	0
Extracurricular Activities	26,205	31,950	31,950	0
Customer Sales and Services	3,519	4,290	7,817	3,527
Rent	4,052	4,940	4,940	0
Gifts and Donations	11,624	14,172	14,172	0
Miscellaneous	127,821	155,841	155,957	116
Total Revenues	24,923,809	25,360,380	25,364,631	4,251
Expenditures:				
Current:				
Instruction:				
Regular	10,605,580	11,278,596	11,278,596	0
Special	2,969,495	3,174,494	3,174,494	0
Vocational	428,950	453,719	453,719	0
Student Intervention Services	4,622	4,943	4,943	0
Support Services:				
Pupils	1,173,419	1,253,694	1,253,694	0
Instructional Staff	843,882	894,467	894,467	0
Board of Education	38,659	41,136	41,136	0
Administration	1,698,055	1,792,220	1,792,220	0
Fiscal	524,380	557,742	557,742	0
Business	5,712	6,108	6,108	0
Operation and Maintenance of Plant	1,836,551	1,859,027	1,859,027	0
Pupil Transportation	1,606,643	1,681,937	1,681,937	0
Central	81,220	85,226	85,226	0
Operation of Non-Instructional Services:				
Community Services	10,839	11,484	11,484	0
Extracurricular Activities	342,857	365,738	365,738	0
Total Expenditures	22,170,864	23,460,531	23,460,531	0
Excess of Revenues Over Expenditures	2,752,945	1,899,849	1,904,100	4,251
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	0	36,817	36,817	0
Transfers Out	(2,049,184)	(2,049,184)	(2,049,184)	0
Total Other Financing Sources (Uses)	(2,049,184)	(2,012,367)	(2,012,367)	0
Net Change in Fund Balance	703,761	(112,518)	(108,267)	4,251
Fund Balance at Beginning of Year	5,788,617	5,788,617	5,788,617	0
Prior Year Encumbrances Appropriated	321,974	321,974	321,974	0
Fund Balance at End of Year	\$6,814,352	\$5,998,073	\$6,002,324	\$4,251

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$12,723	\$72,470
<u>Liabilities:</u>		
Undistributed Monies	0	\$72,470
<u>Net Position:</u>		
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, 2015

	Private Purpose Trust Fund
	Scholarships
<u>Additions:</u>	\$0
<u>Deductions:</u>	0
<i>Change in Net Position</i>	0
<i>Net Position at Beginning of Year</i>	12,723
<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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The 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.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

The School District participates in two jointly governed organizations and an insurance purchasing pool. These organizations are presented in Notes 21 and 22 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Miami Valley Educational Computer Association
Coalition of Rural and Appalachian Schools

Insurance Purchasing Pool:

Ohio SchoolComp Group Retrospective Rating Program

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the 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.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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.

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

agency fund. The private purpose trust fund accounts for college scholarship programs for students. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 8 and 9). 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.

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 are reported in the government-wide statement of net position for deferred charges on refunding and for pension. 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 of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 13.

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 until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 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. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position (See Note 13).

Expenses/Expenditures:

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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 2015, the School District's investments were limited to money market mutual fund 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 2015 amounted to \$60,763, which includes \$31,792 assigned from other School District funds.

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

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of other governments, or imposed by law through constitutional provisions. 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.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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

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.

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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 and net pension liability 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.

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

Hillsboro City School District
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For the Fiscal Year Ended June 30, 2015

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.

Internal Activity

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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
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For the Fiscal Year Ended June 30, 2015

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.

Estimates

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For fiscal year 2015, the School District implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

Net position June 30, 2014	\$55,812,337
Adjustments:	
Net Pension Liability	(35,920,264)
Deferred Outflow - Payments Subsequent to Measurement Date	1,759,994
Restated Net Position June 30, 2014	\$21,652,067

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 4 - FUND BALANCES

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

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Fund Balances	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>				
Long-Term Advances	\$15,000	\$0	\$0	\$15,000
Inventory	0	0	1,069	1,069
Library Materials	0	0	5,000	5,000
<i>Total Nonspendable</i>	15,000	0	6,069	21,069
<i>Restricted for</i>				
Debt Service	0	2,355,749	0	2,355,749
Food Service Operations	0	0	788,833	788,833
Miscellaneous Grants	0	0	34,945	34,945
Set Asides	182,449	0	0	182,449
Library Services	0	0	114	114
Extracurricular	0	0	2,758	2,758
Capital Projects	0	0	2,068,440	2,068,440
Capital Maintenance	0	0	1,092,964	1,092,964
<i>Total Restricted</i>	182,449	2,355,749	3,988,054	6,526,252
<i>Committed to</i>				
Termination Benefits	199,952	0	0	199,952
<i>Assigned to</i>				
Purchases on Order	202,232	0	0	202,232
Principals	127,120	0	0	127,120
<i>Total Assigned</i>	329,352	0	0	329,352
<i>Unassigned (Deficit)</i>	4,975,634	0	(14,992)	4,960,642
<i>Total Fund Balances</i>	\$5,702,387	\$2,355,749	\$3,979,131	\$12,037,267

NOTE 5 - ACCOUNTABILITY

At June 30, 2015, the Title VI-B Grant, Title I and Title II-A Improving Teacher Quality Funds had negative fund balances of \$5,983, \$8,456, and \$553, 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.

NOTE 6 - BUDGETARY BASIS OF ACCOUNTING

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

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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. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).
5. 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	\$480,176
Adjustments:	
Revenue Accruals	(322,740)
Unrecorded Interest	(572)
Expenditure Accruals	(21,839)
Encumbrances	(232,463)
Increase in Fair Market	
Value of Investments - 2014	10,952
Increase in Fair Market	
Value of Investments - 2015	(21,781)
Budget Basis	(\$108,267)

NOTE 7 - DEPOSITS AND INVESTMENTS

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

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

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

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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.

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, 2015, the School District had the following investments:

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For the Fiscal Year Ended June 30, 2015

	Fair Value	Maturity	Percent of Total Investments
Money Market Mutual Fund	\$322,589	0 to 2 years	4.49%
Negotiable Certificates of Deposit	5,128,630	0 to 2 years	71.36%
Negotiable Certificates of Deposit	1,207,743	3 to 4 years	16.80%
Negotiable Certificates of Deposit	528,190	5 years	7.35%
Total Investments	\$7,187,152		

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. Ohio law requires that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. 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.

NOTE 8 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, 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 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in

Hillsboro City School District
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For the Fiscal Year Ended June 30, 2015

calendar year 2015 became a lien December 31, 2013, were levied after April 1, 2014 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, 2015, are available to finance fiscal year 2015 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, 2015 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, 2015 was \$566,338 in the General Fund, \$103,953 in the Debt Service Fund, and \$11,739 in the Nonmajor Governmental Funds. 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.

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 2015 taxes were collected are:

	2014 Second - Half Collections		2015 First - Half Collections	
	Amount	Percentage	Amount	Percentage
Agricultural/Residential and Other Real Estate	\$266,522,260	94.90%	\$267,978,390	94.90%
Public Utility Personal	14,318,240	5.10%	14,405,410	5.10%
Total Assessed Value	<u>\$280,840,500</u>	<u>100.00%</u>	<u>\$282,383,800</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$30.85		\$30.85	

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 9 - INCOME TAX

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

NOTE 10 - RECEIVABLES

Receivables at June 30, 2015, 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	\$4,060
Idea - B Grant	199,941
Title I - School Improvement Grant	29,353
Title I Grant	349,601
Title II - A Grant	62,424
Miscellaneous Federal Grants	46,582
SERS Receivable	25,210
Miscellaneous Receivables	<u>14,264</u>
Total Intergovernmental Receivables	<u><u>\$731,435</u></u>

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 11 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	<u>Balance at 6/30/14</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/15</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$555,964	\$0	\$0	\$555,964
Construction in Progress	1,392,776	601,987	0	1,994,763
Total Capital Assets Not Being Depreciated	<u>1,948,740</u>	<u>601,987</u>	<u>0</u>	<u>2,550,727</u>
Capital Assets Being Depreciated:				
Land Improvements	2,704,681	21,120	0	2,725,801
Buildings and Improvements	62,273,278	0	0	62,273,278
Furniture, Fixtures and Equipment	3,489,857	222,926	0	3,712,783
Vehicles	2,216,037	81,377	(119,410)	2,178,004
Textbooks	996,123	0	0	996,123
Totals Capital Assets Being Depreciated	<u>71,679,976</u>	<u>325,423</u>	<u>(119,410)</u>	<u>71,885,989</u>
Less Accumulated Depreciation:				
Land Improvements	(1,401,102)	(162,998)	0	(1,564,100)
Buildings and Improvements	(11,803,977)	(1,545,222)	0	(13,349,199)
Furniture, Fixtures and Equipment	(2,034,849)	(260,992)	0	(2,295,841)
Vehicles	(1,494,369)	(170,106)	119,410	(1,545,065)
Textbooks	(996,122)	0	0	(996,122)
Total Accumulated Depreciation	<u>(17,730,419)</u>	<u>(2,139,318) *</u>	<u>119,410</u>	<u>(19,750,327)</u>
Total Capital Assets Being Depreciated, Net	<u>53,949,557</u>	<u>(1,813,895)</u>	<u>0</u>	<u>52,135,662</u>
Governmental Activities Capital Assets, Net	<u>\$55,898,297</u>	<u>(\$1,211,908)</u>	<u>\$0</u>	<u>\$54,686,389</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,622,332
Special	3,423
Vocational	14,867
Support Services:	
Instructional Staff	38,799
Administration	12,978
Fiscal	1,074
Operation and Maintenance of Plant	172,364
Pupil Transportation	188,301
Operation of Non-Instructional Services - Food Service Operations	54,016
Extracurricular Activities	31,164
Total Depreciation Expense	<u>\$2,139,318</u>

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 12 - 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 \$84,478,629. 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 2015, the School District participated in the Ohio SchoolComp Group Retrospective Rating Program (GRRP), an insurance purchasing pool (See Note 22). 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.

NOTE 13 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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, required supplementary information and detailed information

Hillsboro City School District
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about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$455,707 for fiscal year 2015. Of this amount \$36,310 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

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New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year

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ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,445,748 for fiscal year 2015. Of this amount \$166,434 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$5,787,847	\$24,445,620	\$30,233,467
Proportion of the Net Pension Liability	0.1143630%	0.10050223%	
Pension Expense	\$375,480	\$875,030	\$1,250,510

At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$49,261	\$235,342	\$284,603
School District contributions subsequent to the measurement date	<u>455,707</u>	<u>1,445,748</u>	<u>1,901,455</u>
Total Deferred Outflows of Resources	<u>\$504,968</u>	<u>\$1,681,090</u>	<u>\$2,186,058</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$939,384</u>	<u>\$4,522,532</u>	<u>\$5,461,916</u>

\$1,901,455 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2016	(\$222,406)	(\$1,071,798)	(\$1,294,204)
2017	(222,406)	(1,071,798)	(1,294,204)
2018	(222,406)	(1,071,798)	(1,294,204)
2019	(222,905)	(1,071,796)	(1,294,701)
Total	(\$890,123)	(\$4,287,190)	(\$5,177,313)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$8,257,537	\$5,787,847	\$3,710,623

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Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$34,996,571	\$24,445,620	\$15,523,067

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, 2015, one member of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 14 – POST-EMPLOYMENT BENEFITS

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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.

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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$61,814.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$90,446, \$55,766, and \$57,283, respectively. For fiscal year 2015, 97.68 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

State Teachers Retirement System of Ohio

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. 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 which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$107,097, and \$105,929, respectively. The full amount has been contributed for all three fiscal years.

NOTE 15 - EMPLOYEE BENEFITS

Compensated Absences

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

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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.

NOTE 16 - CAPITALIZED LEASES – LESSEE DISCLOSURE

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

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 \$25,000 during fiscal year 2015.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Asset:			
Buildings and Improvements	\$818,000	(\$151,363)	\$666,637

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

Fiscal Year Ending June 30,	Total Payments
2016	\$56,296
2017	55,044
2018	54,771
2019	54,452
2020	55,062
2021-2025	274,896
2026-2030	272,719
2031-2032	107,636
Total Minimum Lease Payments	930,876
Less Amount Representing Interest and Fees	(284,876)
Present Value of Minimum Lease Payments	\$646,000

Hillsboro City School District
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NOTE 17 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2015 were as follows:

	Amount Outstanding 6/30/14	Additions	Deductions	Amount Outstanding 6/30/15	Amounts Due in One Year
<i>Governmental Activities:</i>					
General Obligation Bonds:					
School Improvements - 2001 3.25%	\$1,775,000	\$0	\$320,000	\$1,455,000	\$335,000
School Improvements - 2006 2.85%	2,490,000	0	2,365,000	125,000	125,000
School Improvements Refunding -					
2011 3.5%-4.15%	4,620,000	0	65,000	4,555,000	65,000
Capital Appreciation Bonds 3.62%-3.86%	435,000	0	0	435,000	0
Premium on Refunding Bonds	200,074	0	14,291	185,783	0
Accretion on Capital Appreciation Bonds	131,246	50,141	0	181,387	0
School Improvements Refunding					
Bonds 2014 1.00%-3.50%					
Serial Bonds	0	1,165,000	0	1,165,000	50,000
Term Bonds	0	1,070,000	0	1,070,000	0
Capital Appreciation Bonds	0	10,000	0	10,000	0
Premium on Debt Issue	0	219,867	7,853	212,014	0
Accretion on Bonds	0	21,250	0	21,250	0
Total General Obligation Bonds	<u>9,651,320</u>	<u>2,536,258</u>	<u>2,772,144</u>	<u>9,415,434</u>	<u>575,000</u>
Net Pension Liability:					
STRS	29,119,463	0	4,673,843	24,445,620	0
SERS	6,800,801	0	1,012,954	5,787,847	0
Total Net Pension Liability	<u>35,920,264</u>	<u>0</u>	<u>5,686,797</u>	<u>30,233,467</u>	<u>0</u>
Capital Leases	671,000	0	25,000	646,000	27,000
Compensated Absences	956,786	64,201	90,926	930,061	175,213
Total Governmental Activities					
Long-Term Liabilities	<u>\$47,199,370</u>	<u>\$2,600,459</u>	<u>\$8,574,867</u>	<u>\$41,224,962</u>	<u>\$777,213</u>

School Improvement Bonds 2001

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

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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.

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. 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, 2015, 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.

In November 2014, the School District issued \$2,245,000 in School Improvement General Obligation Bonds for the purpose of refunding a portion of the 2006 School Improvement Bonds. This was an advance refunding. \$1,165,000 were serial bonds, \$1,070,000 were term bonds, and \$10,000 were Capital Appreciation Bonds. The bonds were issued for a 15 year period, with final maturity in December 2028. As a result, \$2,245,000 of the 2006 school improvement bonds are considered defeased and the liability for the refunded bonds has been removed from the School District's financial statements. The School District decreased its total debt service payments by \$252,199 as a result of the refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$182,781, but incurred an accounting loss of \$149,909 (difference between reacquisition price and net carrying amount of the old debt).

The School District pays obligations related to employee compensation from the fund benefitting from their service. 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. For additional information related to the net pension liability see note 13.

The School District's overall legal debt margin was \$18,955,291 with an unvoted debt margin of \$282,384 at June 30, 2015.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2015, are as follows:

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School Improvement Bonds

Fiscal Year Ending June 30,	Serial Bonds Principal	Serial Bonds Interest	Capital	Capital	Term Bonds Principal	Term Bonds Interest	Total
			Appreciation Principal	Appreciation Interest			
2016	\$575,000	\$307,428	\$0	\$0	\$0	\$0	\$882,428
2017	595,000	283,580	0	0	0	0	878,580
2018	625,000	257,518	0	0	0	0	882,518
2019	465,000	181,300	10,000	219,645	0	0	875,945
2020	185,000	47,795	225,000	245,000	0	0	702,795
2021-2025	2,555,000	648,018	210,000	260,000	405,000	56,625	4,134,643
2026-2029	2,300,000	193,266	0	0	665,000	35,050	3,193,316
Total	<u>\$7,300,000</u>	<u>\$1,918,905</u>	<u>\$445,000</u>	<u>\$724,645</u>	<u>\$1,070,000</u>	<u>\$91,675</u>	<u>\$11,550,225</u>

NOTE 18 - INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the fiscal year ended June 30, 2015, were as follows:

Transfer From	Transfer To		
		Nonmajor Governmental Funds	Total
	Debt Service		
General Fund	<u>\$56,817</u>	<u>\$1,992,367</u>	<u>\$2,049,184</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.

Interfund Balances

Interfund balances at June 30, 2015, consist of the following individual interfund receivables and payable:

Payable	Receivable
	Nonmajor Governmental Funds
General Fund	<u>\$248,082</u>

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.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Advances To/From Other Funds

As of June 30, 2015, receivables and payables that resulted from various long-term advances were as follows:

	Advances From General Fund	
Advances To	Nonmajor Governmental Funds	<u>\$15,000</u>

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.

NOTE 19 - SET-ASIDE CALCULATIONS

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

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

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

	Capital Acquisition	Budget Stabilization
Set-aside Balance as of June 30, 2014	\$127,923	\$75,952
Current Fiscal Year Set-aside Requirement	440,184	0
Prior Year Offset from Bond Proceeds	(190,631)	0
Current Fiscal Year Qualifying Expenditures	(195,027)	0
Set-aside Balance Carried		
Forward to Future Fiscal Years	\$182,449	\$75,952
Set-aside Balance		
as of June 30, 2015	\$182,449	\$75,952

The total reserve balance at the end of the fiscal year was \$258,401.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 20 - 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, 2015.

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable or liability of the School District.

Litigation

The School District is not party to any legal proceeding.

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS

Miami Valley Educational Computer Association

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

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts, except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The 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 \$156,433 for services provided during fiscal year 2015. Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 paid \$325 to the Coalition for services provided during the fiscal year.

NOTE 22 – INSURANCE PURCHASING POOL

Ohio SchoolComp Group Retrospective Rating Program

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

NOTE 23 – 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	\$232,463
Nonmajor Governmental Funds	76,914
Total	<u>\$309,377</u>

NOTE 24 – SUBSEQUENT EVENT

On July 20, 2015, the Board approved a transfer from the Debt Service Fund to the Permanent Improvement Fund for \$1,000,000 which was approved by the Highland County Budget Commission under the new language enacted by HB153 under Ohio Revised Code 5705.14(c)(2) effective September 29, 2011.

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Hillsboro City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

	2014	2013
School District's Proportion of the Net Pension Liability	0.1143630%	0.1143630%
School District's Proportionate Share of the Net Pension Liability	\$5,787,847	\$6,800,801
School District's Covered-Employee Payroll	\$3,373,053	\$3,167,855
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	171.59%	214.68%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: Amounts presented as of the School District's measurement date which is the prior fiscal year end.

Hillsboro City School District
 Required Supplementary Information
 Schedule of the School District's Proportionate Share of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Two Fiscal Years (1)

	2014	2013
School District's Proportion of the Net Pension Liability	0.1005023%	0.1005023%
School District's Proportionate Share of the Net Pension Liability	\$24,445,620	\$29,119,463
School District's Covered-Employee Payroll	\$9,705,250	\$10,592,931
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	251.88%	274.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Note: Amounts presented as of the School District's measurement date which is the prior fiscal year end.

Hillsboro City School District
 Required Supplementary Information
 Schedule of School District Contributions
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually Required Contribution	\$455,708	\$467,505	\$438,431	\$426,036	\$306,375	\$269,827	\$353,345	\$526,099	\$502,452	\$473,892
Contributions in Relation to the Contractually Required Contribution	<u>(455,708)</u>	<u>(467,505)</u>	<u>(438,431)</u>	<u>(426,036)</u>	<u>(306,375)</u>	<u>(269,827)</u>	<u>(353,345)</u>	<u>(526,099)</u>	<u>(502,452)</u>	<u>(473,892)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$3,457,564	\$3,373,053	\$3,167,855	\$3,167,551	\$2,437,350	\$1,992,817	\$3,590,902	\$5,357,424	\$4,704,607	\$4,479,130
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%	10.59%

Hillsboro City School District
 Required Supplementary Information
 Schedule of School District Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually Required Contribution	\$1,445,748	\$1,292,489	\$1,377,081	\$1,279,824	\$287,851	\$254,682	\$326,413	\$490,740	\$502,452	\$473,892
Contributions in Relation to the Contractually Required Contribution	<u>(1,445,748)</u>	<u>(1,292,489)</u>	<u>(1,377,081)</u>	<u>(1,279,824)</u>	<u>(287,851)</u>	<u>(254,682)</u>	<u>(326,413)</u>	<u>(490,740)</u>	<u>(502,452)</u>	<u>(473,892)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$10,326,771	\$9,942,224	\$10,592,931	\$9,844,800	\$2,214,238	\$1,959,092	\$2,510,869	\$3,774,923	\$3,865,015	\$3,645,323
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/ Pass Through Grantor Program Title	Federal pass- thru	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
Non-Cash Assistance:						
National School Lunch Program	3L60	10.555		\$ 79,212		\$ 79,212
Cash Assistance:						
National School Breakfast Program	3L70	10.553	218,020		218,020	
National School Lunch	3L60	10.555	575,123		575,123	
<i>Total Nutrition Cluster</i>			793,143	79,212	793,143	79,212
Total U.S. Department of Agriculture			793,143	79,212	793,143	79,212
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
Title 1						
Title 1 - FY 14	3M00	84.010	74,936		92,885	
Title 1 - FY 15		84.010	625,142		720,844	
Title 1 - School Improvement FY14		84.010	13,304		9,203	
Title 1 - School Improvement FY15		84.010	26,420		41,638	
<i>Total Title I</i>			739,802		864,570	
Special Education Cluster:						
Special Education Grants to States						
IDEA Part B - FY14	3M20	84.027	25,838		43,043	
IDEA Part B - FY15			361,941		429,409	
Total IDEA Part B			387,779		472,452	
Preschool Subsidy - FY 15	3C50	84.173	4,524		4,524	
<i>Total Special Education Cluster</i>			392,303		476,976	
Title II-A Improving Teacher Quality - FY14	3Y60	84.367	40,450		10,553	
Title II-A Improving Teacher Quality - FY15			98,983		135,366	
Total Title II-A Improving Teacher Quality			139,433		145,919	
Small, Rural School Achievement Program FY14	3Y80	84.358	(7,000)			
Small, Rural School Achievement Program FY15			34,416		63,740	
Total Small, Rural School Achievement Program			27,416		63,740	
<i>Passed through Great Oaks Institute of Technology and Career Development</i>						
Career Education - FY15	N/A	84.048	6,000		6,000	
			6,000		6,000	
Total Department of Education			1,304,954		1,557,205	
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 2,098,097	\$ 79,212	\$ 2,350,348	\$ 79,212

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

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Hillsboro City School District (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.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

NOTE E - TRANSFER BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. This transfer resulted in the Schedule reporting negative receipts. The District transferred \$7,000 from 2014 to 2015 CFDA# 84.358 Small, Rural School Achievement Program.



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, 2015, 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 7, 2016, wherein we noted the District adopted Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27* and *Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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 7, 2016



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH THE 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 the 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, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Hillsboro City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

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



Dave Yost
Auditor of State

Columbus, Ohio

March 7, 2016

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2015**

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):	Title I and Title I – School Improvement, CFDA #84.010
<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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HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 22, 2016**