



Dave Yost • Auditor of State

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Rolling Hills Local School District
Guernsey County
P.O. Box 38
Byesville, Ohio 43723

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rolling Hills Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Rolling Hills Local School District, Guernsey County, Ohio, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the School District was placed in Fiscal Caution by the Ohio Department of Education on March 24, 2006 based on the 5 year forecast. Note 20 to the basic financial statements describes management has adopted a plan to address the projected deficits.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 25, 2013

Rolling Hills Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of the Rolling Hills Local School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2012 are as follows:

- Net assets of governmental activities increased \$1,042,907.
- General revenues accounted for \$14,657,468 in revenue or 74 percent of all revenues. Program specific revenues in the form of charges for services and operating and capital grants, contributions, and interest accounted for \$5,230,558, or 26 percent of total revenues of \$19,888,026.
- Total assets of the School District increased \$463,296 due primarily to increases in cash and cash equivalents and intergovernmental receivables which were offset by a decrease in property taxes receivable.
- The School District had \$18,845,119 in expenses related to governmental activities; only \$5,230,558 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues in the amount of \$14,657,468 were adequate to provide for these programs.
- Total governmental funds had revenues in the amount of \$20,321,826 and expenditures in the amount of \$19,220,549. Total fund balances, including other financing sources and uses, increased \$1,101,277.

Using this Annual Financial Report

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

The Statement of Net Assets and 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 General Fund with all other nonmajor funds presented in total in one column.

Rolling Hills Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into consideration all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets 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. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, extracurricular activities, and interest.

Reporting the School District's Most Significant Fund

Fund Financial Statements

The analysis of the School District's major fund begins on page 8. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant fund. The School District's major governmental fund is the General Fund.

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 governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Rolling Hills Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its scholarship program. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, and other government units. These activities are reported in two agency funds. The School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2012 compared to 2011.

Table 1
Net Assets

	<u>Governmental Activities</u>		
	2012	2011	Change
Assets			
Current and Other Assets	\$12,197,755	\$11,732,467	\$465,288
Capital Assets	12,388,842	12,390,834	(1,992)
Total Assets	24,586,597	24,123,301	463,296
Liabilities			
Long-Term Liabilities	1,704,452	1,864,658	(160,206)
Other Liabilities	5,687,164	6,106,569	(419,405)
Total Liabilities	7,391,616	7,971,227	(579,611)
Net Assets			
Invested in Capital Assets, Net of Related Debt	11,771,018	11,763,861	7,157
Restricted	992,273	724,566	267,707
Unrestricted	4,431,690	3,663,647	768,043
Total Net Assets	\$17,194,981	\$16,152,074	\$1,042,907

Total assets increased \$463,296. The increase in current assets is primarily due to increases in cash and cash equivalents as well as intergovernmental receivables, due primarily to the School District participating in the federal Education Jobs Program, and a large carryover balance of Title I grant funds.

Total liabilities decreased \$579,611. Long-term liabilities decreased primarily due to decreases in retirement incentive payable as well as annual scheduled debt service payments. The decrease in other liabilities was primarily due to decreases in accrued wages and benefits, deferred revenue, and accounts payable, offset by increases to intergovernmental payable and claims payable.

As a result, total net assets increased by \$1,042,907.

Rolling Hills Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2 shows the changes in net assets for fiscal year 2012, and comparisons to fiscal year 2011.

Table 2
Change in Net Assets

Revenues	Governmental Activities		
	2012	2011	Change
Program Revenues			
Charges for Services	\$1,073,787	\$1,105,881	(\$32,094)
Operating Grants, Contributions, and Interest	3,965,887	3,334,736	631,151
Capital Grants and Contributions	190,884	0	190,884
Total Program Revenues	<u>5,230,558</u>	<u>4,440,617</u>	<u>789,941</u>
General Revenue			
Property Taxes	4,505,524	6,051,689	(1,546,165)
Grants and Entitlements	10,117,912	9,991,923	125,989
Investment Earnings	7,289	10,573	(3,284)
Gifts and Donations	0	98,578	(98,578)
Miscellaneous	26,743	28,272	(1,529)
Total General Revenues	<u>14,657,468</u>	<u>16,181,035</u>	<u>(1,523,567)</u>
Total Revenues	<u>19,888,026</u>	<u>20,621,652</u>	<u>(733,626)</u>
Program Expenses			
Instruction:			
Regular	7,320,035	7,425,962	(105,927)
Special	2,145,607	2,241,480	(95,873)
Vocational	220,181	287,687	(67,506)
Intervention	1,696,956	1,252,480	444,476
Support Services:			
Pupils	527,608	498,747	28,861
Instructional Staff	1,103,617	1,238,347	(134,730)
Board of Education	27,802	22,743	5,059
Administration	1,375,081	1,163,097	211,984
Fiscal	578,413	699,240	(120,827)
Operation and Maintenance of Plant	1,600,870	1,715,608	(114,738)
Pupil Transportation	883,344	857,151	26,193
Central	79,250	46,941	32,309
Operation of Non-Instructional Services:			
Food Service Operations	968,437	940,052	28,385
Other Non-Instructional Services	7,490	4,322	3,168
Extracurricular Activities	285,337	269,407	15,930
Interest	25,091	26,428	(1,337)
Total Expenses	<u>18,845,119</u>	<u>18,689,692</u>	<u>155,427</u>
Change in Net Assets	1,042,907	1,931,960	(889,053)
Net Assets Beginning of Year	<u>16,152,074</u>	<u>14,220,114</u>	<u>1,931,960</u>
Net Assets End of Year	<u>\$17,194,981</u>	<u>\$16,152,074</u>	<u>\$1,042,907</u>

Rolling Hills Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Property taxes comprise approximately 23 percent of revenues for governmental activities for the School District in fiscal year 2012. Property tax revenues decreased \$1,546,165 from the prior fiscal year primarily due to a payment of delinquent property taxes by a large commercial taxpayer based upon a ruling by the Department of Taxation. The amount paid was less than the amount originally assessed due to the ruling by the Department of taxation, and resulted in an increase in cash and cash equivalents, and a decrease in delinquent property taxes. Total program revenue increased from the prior year primarily due to increases in operating grants, contributions, and interest related to the School District participating in the federal Education Jobs program as well as other program specific federal monies.

In total, operating expenses increased slightly as the School District continues to monitor spending.

Instructional programs comprise approximately 60 percent of total governmental program expenses, and reflected an increase of \$175,170 from the prior year. The increase was due to rising costs related to student intervention. The largest change in expenses is reflected in the costs associated with the School District's Administration, an increase of \$211,984 due primarily to an increase in severance payments. These increases were slightly offset by decreases in support services as well as non-instructional service expenses with the largest decrease being associated with instructional staff costs, a decrease in the amount of \$134,730 due primarily to a decrease in personnel costs.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Instruction:				
Regular	\$7,320,035	\$5,731,836	\$7,425,962	\$6,441,545
Special	2,145,607	1,189,711	2,241,480	1,446,885
Vocational	220,181	100,121	287,687	167,067
Intervention	1,696,956	1,441,552	1,252,480	1,252,480
Support Services:				
Pupils	527,608	337,547	498,747	470,615
Instructional Staff	1,103,617	300,343	1,238,347	595,534
Board of Education	27,802	27,802	22,743	22,743
Administration	1,375,081	1,364,086	1,163,097	641,742
Fiscal	578,413	578,413	699,240	677,229
Operation and Maintenance of Plant	1,600,870	1,522,746	1,715,608	1,649,650
Pupil Transportation	883,344	857,194	857,151	836,727
Central	79,250	79,250	46,941	42,927
Operation of Non-Instructional Services:				
Food Service Operation	968,437	(100,734)	940,052	(29,235)
Other Non-Instructional Services	7,490	(1,905)	4,322	622
Extracurricular Activities	285,337	161,508	269,407	6,116
Interest	25,091	25,091	26,428	26,428
Total Expenses	\$18,845,119	\$13,614,561	\$18,689,692	\$14,249,075

Rolling Hills Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 72 percent of the School District's activities being supported primarily through taxes and intergovernmental revenues.

The School District's Funds

The School District's governmental funds are accounted for modified accrual basis of accounting. The School District has one major fund, the General Fund. The General Fund had \$16,713,487 in revenues and \$15,561,995 in expenditures. The General Fund's balance, including other financing uses, increased \$1,065,700 due primarily to a decrease in accrued wages and benefits and deferred revenue.

General Fund Budgeting 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 2012, the School District amended its General Fund budget, and the budgetary statement reflects both original and final budgeted amounts. There was no significant variance between original and final budgeted amounts with regards to revenues, however the final budgeted amounts were \$653,425 lower than actual results. The majority of this difference was the conservative estimate of foundation payments and the uncertainty of state support. For expenditures, there were minimal differences between original and final budgeted amounts, however for final appropriations, there was a significant variance between budgeted and actual as spending in almost all categories was less than budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the School District had \$12,388,842 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. See Note 9 for additional information regarding capital assets.

Debt

At June 30, 2012 the School District had \$659,285 outstanding in energy conservation notes, with \$45,000 due within one year. See Note 15 for more detailed information of the School District's debt.

Economic Factors

The School District ended fiscal year 2012 with an overall increase in net assets. Based on the current financial situation, the School District will be proactive in maintaining a balanced budget for fiscal year 2013. The athletic activities are being subsidized in part by donations and fees collected in a pay-to-participate program. However, these activities continue to rely on unrestricted General Fund resources in order to maintain a positive balance. The School District's emergency replacement levy was passed November 2011, and will generate revenues of approximately \$1,400,000 annually. Based on these factors, the Board of Education and Administration of the School District must maintain careful financial planning and prudent fiscal management in order to ensure the future financial stability of the School District.

Rolling Hills Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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 financial information, contact Kandi Fuller, Treasurer/CFO at Rolling Hills Local School District, P.O. Box 38, Byesville, Ohio 43723.

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Rolling Hills Local School District
Statement of Net Assets
June 30, 2012

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,432,123
Accounts Receivable	149,828
Intergovernmental Receivable	993,160
Prepaid Items	36,773
Materials and Supplies Inventory	95,237
Property Taxes Receivable	6,462,156
Deferred Charges	28,478
Nondepreciable Capital Assets	214,502
Depreciable Capital Assets, Net	12,174,340
 Total Assets	 24,586,597
Liabilities	
Accounts Payable	89,697
Accrued Wages and Benefits Payable	1,338,127
Intergovernmental Payable	461,838
Matured Compensated Absences Payable	38,971
Matured Retirement Incentive Payable	10,000
Accrued Interest Payable	983
Claims Payable	296,800
Deferred Revenue	3,450,748
Long-Term Liabilities:	
Due Within One Year	184,145
Due In More Than One Year	1,520,307
 Total Liabilities	 7,391,616
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,771,018
Restricted for:	
Debt Service	4,094
Building Maintenance	215,725
Food Service Operation	121,847
Federal Programs	592,395
State Programs	21,960
Other Purposes	28,349
Unclaimed Monies	7,903
Unrestricted	4,431,690
 Total Net Assets	 \$17,194,981

See accompanying notes to the basic financial statements

Rolling Hills Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants, Contributions, and Interest		Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$7,320,035	\$530,347	\$866,968	\$190,884	(\$5,731,836)
Special	2,145,607	13,225	942,671	0	(1,189,711)
Vocational	220,181	0	120,060	0	(100,121)
Intervention	1,696,956	0	255,404	0	(1,441,552)
Support Services:					
Pupils	527,608	101,195	88,866	0	(337,547)
Instructional Staff	1,103,617	0	803,274	0	(300,343)
Board of Education	27,802	0	0	0	(27,802)
Administration	1,375,081	0	10,995	0	(1,364,086)
Fiscal	578,413	0	0	0	(578,413)
Operation and Maintenance of Plant	1,600,870	36,921	41,203	0	(1,522,746)
Pupil Transportation	883,344	18,222	7,928	0	(857,194)
Central	79,250	0	0	0	(79,250)
Operation of Non-Instructional Services:					
Food Service Operations	968,437	250,048	819,123	0	100,734
Other Non-Instructional Services	7,490	0	9,395	0	1,905
Extracurricular Activities	285,337	123,829	0	0	(161,508)
Interest	25,091	0	0	0	(25,091)
Total Governmental Activities	\$18,845,119	\$1,073,787	\$3,965,887	\$190,884	(13,614,561)
General Revenues					
Property Taxes Levied for General Purpose					4,505,524
Grants and Entitlements not Restricted to Specific Programs					10,117,912
Investment Earnings					7,289
Miscellaneous					26,743
Total General Revenues					14,657,468
Change in Net Assets					1,042,907
Net Assets Beginning of Year					16,152,074
Net Assets End of Year					\$17,194,981

See accompanying notes to the basic financial statements

Rolling Hills Local School District
Balance Sheet
Governmental Funds
June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,038,828	\$504,222	\$3,543,050
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	7,903	0	7,903
Accounts Receivable	6,407	48,754	55,161
Interfund Receivable	150,089	0	150,089
Intergovernmental Receivable	0	993,160	993,160
Prepaid Items	36,773	0	36,773
Materials and Supplies Inventory	80,709	14,528	95,237
Property Taxes Receivable	6,397,166	64,990	6,462,156
Total Assets	<u>\$9,717,875</u>	<u>\$1,625,654</u>	<u>\$11,343,529</u>
Liabilities			
Matured Compensated Absences Payable	\$38,971	\$0	\$38,971
Matured Retirement Incentive Payable	10,000	0	10,000
Accounts Payable	43,769	45,928	89,697
Accrued Wages and Benefits Payable	1,086,264	251,863	1,338,127
Interfund Payable	0	150,089	150,089
Deferred Revenue	4,539,322	732,784	5,272,106
Intergovernmental Payable	384,453	77,385	461,838
Total Liabilities	<u>6,102,779</u>	<u>1,258,049</u>	<u>7,360,828</u>
Fund Balances (Deficit)			
Nonspendable:			
Inventories	80,709	14,528	95,237
Prepaid Items	36,773	0	36,773
Unclaimed Monies	7,903	0	7,903
Restricted for:			
Restricted for Debt Service	0	36,094	36,094
Restricted for State Programs	0	21,960	21,960
Restricted for Federal Programs	0	36,249	36,249
Restricted for Food Service	0	126,348	126,348
Restricted for Other Purposes	0	27,427	27,427
Restricted for Classroom Facilities Maintenance	0	215,725	215,725
Committed to Encumbrances	38,000	0	38,000
Assigned to:			
Encumbrances	224,610	0	224,610
Other Purposes	74,562	0	74,562
Unassigned	3,152,539	(110,726)	3,041,813
Total Fund Balances	<u>3,615,096</u>	<u>367,605</u>	<u>3,982,701</u>
Total Liabilities and Fund Balances	<u>\$9,717,875</u>	<u>\$1,625,654</u>	<u>\$11,343,529</u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2012*

Total Governmental Fund Balances		\$3,982,701
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		12,388,842
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Property Taxes	1,147,157	
Grants	667,794	
Tuition and Fees	6,407	
Total		1,821,358
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.		28,478
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		679,037
Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Notes Serial/Term	(590,000)	
Capital Appreciation Notes	(27,824)	
Accretion of Interest - Capital Appreciation Notes	(10,444)	
Bond Premium	(31,017)	
Retirement Incentive	(56,000)	
Compensated Absences	(989,167)	
Accrued Interest Payable	(983)	
Total		(1,705,435)
Net Assets of Governmental Activities		\$17,194,981

See accompanying notes to the basic financial statements

Rolling Hills Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$5,478,525	\$60,390	\$5,538,915
Intergovernmental	10,320,096	3,123,914	13,444,010
Interest	7,289	175	7,464
Tuition and Fees	585,432	55,383	640,815
Extracurricular Activities	101,195	75,058	176,253
Rentals	10,215	26,706	36,921
Charges for Services	0	250,048	250,048
Contributions and Donations	185,157	15,500	200,657
Miscellaneous	25,578	1,165	26,743
Total Revenues	16,713,487	3,608,339	20,321,826
Expenditures			
Current:			
Instruction:			
Regular	6,465,157	800,445	7,265,602
Special	1,599,543	597,003	2,196,546
Vocational	215,274	0	215,274
Intervention	1,525,803	171,153	1,696,956
Support Services:			
Pupils	445,433	85,015	530,448
Instructional Staff	404,353	670,766	1,075,119
Board of Education	27,802	0	27,802
Administration	1,387,737	7,284	1,395,021
Fiscal	575,438	0	575,438
Operation and Maintenance of Plant	1,505,259	56,284	1,561,543
Pupil Transportation	975,277	28,329	1,003,606
Central	75,793	2,620	78,413
Operation of Non-Instructional Services:			
Food Service Operations	0	947,953	947,953
Other Non-Instructional Services	3,354	6,535	9,889
Extracurricular Activities	31,258	224,777	256,035
Capital Outlay	324,514	0	324,514
Debt Service:			
Principal Retirement	0	40,000	40,000
Interest and Fiscal Charges	0	20,390	20,390
Total Expenditures	15,561,995	3,658,554	19,220,549
Excess of Revenues Over (Under) Expenditures	1,151,492	(50,215)	1,101,277
Other Financing Source (Use)			
Transfers In	0	85,792	85,792
Transfers Out	(85,792)	0	(85,792)
Total Other Financing Source (Use)	(85,792)	85,792	0
Net Change in Fund Balances	1,065,700	35,577	1,101,277
Fund Balances Beginning of Year	2,549,396	332,028	2,881,424
Fund Balances End of Year	<u>\$3,615,096</u>	<u>\$367,605</u>	<u>\$3,982,701</u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$1,101,277

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

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays and capital contributions exceeded depreciation:

Capital Asset Additions	535,122	
Depreciation Expense	(526,120)	
Total	9,002	9,002

The cost of the capital assets is removed from the capital asset account on the statement of net assets, resulting in a loss on disposal of capital assets on the statement of activities. (10,994)

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

Grants	622,341	
Taxes	(1,033,391)	
Tuition and Fees	(30,250)	
Total	(441,300)	(441,300)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 40,000

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Bond Premium	2,585	
Annual Accretion	(4,980)	
Amortization of Issuance Costs	(2,373)	
Interest Payable	67	
Total	(4,701)	(4,701)

Some expenses reported on the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Early Retirement Incentive Payable	96,000	
Compensated Absences Payable	26,601	
Total	122,601	122,601

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net change of the internal service fund is reported with governmental activities. 227,022

Change in Net Assets of Governmental Activities **\$1,042,907**

See accompanying notes to the basic financial statements

Rolling Hills Local 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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$5,212,154	\$5,224,257	\$5,377,814	\$153,557
Intergovernmental	9,912,282	9,935,506	10,320,096	384,590
Interest	24,984	25,000	7,289	(17,711)
Tuition and Fees	533,872	535,189	585,432	50,243
Rentals	6,905	6,928	10,215	3,287
Extracurricular Activities	104,761	104,761	101,195	(3,566)
Contributions and Donations	93,448	93,865	185,157	91,292
Miscellaneous	33,574	33,845	25,578	(8,267)
Total Revenues	15,921,980	15,959,351	16,612,776	653,425
Expenditures				
Current:				
Instruction:				
Regular	7,259,516	7,268,877	6,788,105	480,772
Special	1,676,935	1,679,144	1,594,156	84,988
Vocational	260,771	261,110	247,400	13,710
Intervention	1,611,383	1,613,506	1,525,738	87,768
Support Services:				
Pupils	465,421	519,452	470,612	48,840
Instructional Staff	469,624	470,240	446,317	23,923
Board of Education	30,057	30,096	34,257	(4,161)
Administration	1,472,479	1,474,386	1,393,145	81,241
Fiscal	629,424	630,251	621,939	8,312
Operation and Maintenance of Plant	1,640,697	1,642,801	1,622,423	20,378
Pupil Transportation	1,151,699	1,153,081	1,027,750	125,331
Central	78,046	78,147	72,778	5,369
Operation of Non-Instructional Services:				
Other Non-Instructional Services	1,670	1,672	955	717
Extracurricular Activities	33,397	33,441	34,643	(1,202)
Capital Outlay	357,389	357,840	324,514	33,326
Total Expenditures	17,138,508	17,214,044	16,204,732	1,009,312
Excess of Revenues Over (Under) Expenditures	(1,216,528)	(1,254,693)	408,044	1,662,737
Other Financing Uses				
Transfers Out	0	0	(110,510)	(110,510)
Advances Out	0	0	(35,908)	(35,908)
Total Other Financing Uses	0	0	(146,418)	(146,418)
Net Change in Fund Balance	(1,216,528)	(1,254,693)	261,626	1,516,319
Fund Balance Beginning of Year	2,261,745	2,261,745	2,261,745	0
Prior Year Encumbrances Appropriated	359,241	359,241	359,241	0
Fund Balance End of Year	\$1,404,458	\$1,366,293	\$2,882,612	\$1,516,319

See accompanying notes to the basic financial statements

Rolling Hills Local School District

Statement of Fund Net Assets

Proprietary Fund

June 30, 2012

	<u>Governmental Activity</u>
	<u>Internal Service Fund</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$881,170
Accounts Receivable	94,667
	<hr/>
<i>Total Assets</i>	<i>975,837</i>
	<hr/>
Current Liabilities	
Claims Payable	296,800
	<hr/>
Total Liabilities	296,800
	<hr/>
Net Assets	
Unrestricted	\$679,037
	<hr/> <hr/>

See accompanying notes to the basic financial statements

Rolling Hills Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2012

	Governmental Activity
	Internal Service Fund
Operating Revenues	
Charges for Services	\$3,018,433
Operating Expenses	
Purchased Services	467,625
Claims	2,323,786
Total Operating Expenses	2,791,411
Change in Net Assets	227,022
Net Assets at Beginning of Year	452,015
Net Assets at End of Year	\$679,037

See accompanying notes to the basic financial statements

Rolling Hills Local School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2012

	Governmental Activity
	Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$3,018,433
Cash Payments for Services	(469,099)
Cash Payments for Claims	(2,398,079)
	151,255
Net Cash Provided by Operating Activities	151,255
Cash and Cash Equivalents Beginning of Year	729,915
	881,170
Cash and Cash Equivalents End of Year	\$881,170
Reconciliation of Operating Income to	
Net Cash Provided by Operating Activities	
Operating Income	\$227,022
Changes in Assets and Liabilities	
Increase in Accounts Receivable	(94,667)
Decrease in Accounts Payable	(1,474)
Increase in Claims Payable	20,374
	(75,767)
Total Changes in Assets and Liabilities	(75,767)
Net Cash Provided by Operating Activities	\$151,255

See accompanying notes to the basic financial statements

Rolling Hills Local School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2012

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$9,848	\$30,110
Cash and Cash Equivalents in Segragated Accounts	0	9,132
Investments with Fiscal Agents	908,678	0
	<u> </u>	<u> </u>
Total Assets	918,526	<u><u>\$39,242</u></u>
Liabilities		
Undistributed Monies	0	\$17,785
Due to Students	0	21,457
	<u> </u>	<u> </u>
Total Liabilities	0	<u><u>\$39,242</u></u>
Net Assets		
Held in Trust for Scholarships	<u><u>\$918,526</u></u>	

See accompanying notes to the basic financial statements

Rolling Hills Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2012

	Private Purpose Trust
Additions	
Contributions and Donations	\$60
Decrease in Fair Market Value of Investments	(54,915)
Interest	16,527
<i>Total Additions</i>	(38,328)
Deductions	
Contractual Services	20,632
Change in Net Assets	(58,960)
Net Assets Beginning of Year	977,486
Net Assets End of Year	\$918,526

See accompanying notes to the basic financial statements

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 1 - Description of the School District and Reporting Entity

Rolling Hills Local School District (the “School District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five member Board of Education. The School District provides educational services as authorized by its charter and further mandated by state and federal agencies. This Board controls the School District’s six instructional support facilities staffed by 109 classified employees and 136 certificated teaching employees and administrative personnel who provide services to 1,963 students.

The Superintendent of Public Instruction declared the School District in a state of fiscal caution effective March 24, 2006. See Note 20 for more information.

Reporting Entity

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

Cherish Christian Academy operates within the School District boundaries. Current state legislation provides funding to this parochial school. These monies are received and disbursed by the School District on behalf of the parochial school and transportation is provided to their students. This activity is reflected in the Auxiliary Services Special Revenue Fund 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. The School District has no component units.

The School District participates in five jointly governed organizations and one group insurance purchasing pool. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (OME-RESA), the Mid-East Career and Technology Centers, the Metropolitan Educational Council, the Coalition of Rural and Appalachian Schools, the Ohio Coalition for Equity and Adequacy of School Funding, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. Additional information concerning these organizations is presented in Notes 16 and 17.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Assets 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 Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities of the School District that are governmental in nature (financed through taxes, intergovernmental receipts, or other nonexchange transactions) and those that are considered business-type activities (financed in whole or in part by fees charged to external parties for goods or services). The School District, however, has no business-type activities.

The Statement of Net Assets 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 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. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

B. 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. There are three categories of funds: governmental, proprietary, and fiduciary.

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

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income/loss, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Medical-Dental-Prescription Self-Insurance Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical/surgical, dental, and prescription drug claims.

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 nonexchange transactions must also be available before it can be recognized.

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

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

The School District has a segregated bank account for monies held separate from the School District's central bank account. This account maintains voluntary payroll deductions associated with the School District's flexible spending program. This interest bearing depository account is presented on the financial statements as "Cash and Cash Equivalents in Segregated Accounts" since it is not deposited into the School District treasury.

During fiscal year 2012, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2012.

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 2012 amounted to \$7,289, which includes \$3,252 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories of governmental funds consist of expendable supplies held for consumption and donated and purchased food held for resale.

H. Capital Assets

All of the School District's capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by back trending (i.e., estimating current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. 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.

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	10-20 years
Buildings and Improvements	5-50 years
Furniture and Equipment	5-20 years
Vehicles	10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables". These amounts are eliminated on the Statement of Net Assets.

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

J. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents required by State statute for unclaimed monies.

K. 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. A liability is recorded for vacation eligible employees after one year of service with the School District.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave after seventeen years of current service for all employees of the School District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which these payments will be paid.

L. 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 funds. However, claims and judgments, compensated absences, and retirement incentive benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. General obligation bonds are recognized as a liability on the governmental fund financial statements when due.

M. Bond/Note Premiums, Discounts, and Issuance Costs

In the government-wide financial statements, long-term debt and other long-term obligation are reported as liabilities in the statement of net assets. Note premiums and discounts are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Notes/Bonds payable are reported net of the applicable note premium or discount. Note/Bond issuance costs are recorded as deferred charges and amortized over the term of the related debt.

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note/Bond discounts on the capital appreciation notes are deferred and accreted over the term of the notes.

Any gain/loss on refunding is allocated over the life of the old debt or the new debt whichever is shorter.

On the governmental fund financial statements, issuance costs, note premiums, and note discounts are recognized in the period in which the debt is issued. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Internal Activity

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

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

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

O. 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 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” includes items that are not expected to be converted to cash.

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 or enabling legislation (School District resolutions).

Enabling legislation authorizes the School District to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the School District can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specific by the legislation.

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Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the School District Board of Education, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by resolution or by State Statute.

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

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

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for federal and state grants restricted to expenditures for specified purposes. Of total net assets, none have been restricted by enabling legislation.

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

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Notes to the Basic Financial Statements
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Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

S. 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.

T. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been authorized to further allocate appropriations to the function and object level within each fund. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are not intended to be repaid.

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 statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate of estimated resources in effect at the time the final appropriations were passed by the Board.

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 reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during the fiscal year.

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 3 - Change in Accounting Principle

For fiscal year 2012, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53". GASB Statement No. 64 was issued to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this statement did not result in any change to the School District's financial statements.

Note 4 - Accountability and Compliance

The following funds had deficit fund balances as of June 30, 2012:

Special Revenue Funds:	Amount
Miscellaneous Federal Grants	\$47,416
Title I	63,310

These deficits were created by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances due to the timing of federal receipt; however, this is done when cash is needed than accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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 restricted, committed, or unassigned fund balance (GAAP basis).

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

Net Change in Fund Balance	General
GAAP Basis	\$1,065,700
Revenue Accruals	(100,711)
Advances Out	(35,908)
Fiscal Year 2011 Prepaid Items	35,446
Fiscal Year 2012 Prepaid Items	(36,773)
Expenditure Accruals	(387,828)
Encumbrances	(278,300)
Budget Basis	\$261,626

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;

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4. Bonds and other obligations of the State of Ohio;
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) of Ohio Revised Code Section 135.18;
7. The State Treasurer's investment pool (STAR Ohio); 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.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$4,892,685 of the School District's bank balance of \$5,142,685 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments As of June 30, 2012, the School District had monies invested in STAR Ohio. The fair value of the investment in STAR Ohio is \$4,142 and the fund had an average maturity of 52.5 days at fiscal year-end.

Interest Rate Risk. The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or permits the sale of negotiable instruments prior to maturity in accordance with the law. 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 be purchased with the expectation that it will be held to maturity.

Credit Risk. STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy regarding credit risk.

At June 30, 2012, the School District's Private Purpose Trust Fund had an investment balance of \$908,678 held with The Foundation for Appalachian Ohio (FAO). The money is held by FAO in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. To obtain financial information regarding FAO, visit www.appalachianohio.org

Rolling Hills Local School District
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Note 7 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, 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 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011, 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 Guernsey, Noble, and Muskingum Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2012, are available to finance fiscal year 2012 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 which were measurable as of June 30, 2012 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 reflected 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 revenue.

The amount available as an advance, and recognized as revenue at June 30, 2012, was \$1,864,251 in the General Fund. At June 30, 2011, \$1,728,429 was available as an advance in the General Fund.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

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	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$170,714,890	73.34%	\$171,849,120	73.66%
Public Utility Personal	62,059,240	26.66%	61,461,890	26.34%
Total	\$232,774,130	100.00%	\$233,311,010	100.00%
 Tax Rate per \$1,000 of assessed valuation	 \$24.75		 \$25.20	

Note 8 - Receivables

Receivables at June 30, 2012, consisted of property taxes, intergovernmental grants, and accounts receivable. 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. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$1,147,157 may not be collected within one year. All other receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Race to the Top Grant	\$70,294
IDEA Part B Grant	64,349
Title I Grant	637,333
Title II-A Grant	77,493
Title VI-B	54,779
Education Jobs Grant	48,117
National School Lunch Reimbursement	40,795
Total	\$993,160

Rolling Hills Local School District
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Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Nondepreciable Capital Assets				
Land	\$214,502	\$0	\$0	\$214,502
Total Nondepreciable Capital Assets	<u>214,502</u>	<u>0</u>	<u>0</u>	<u>214,502</u>
Depreciable Capital Assets				
Land Improvements	1,070,389	329,497	0	1,399,886
Buildings and Improvements	19,010,392	0	0	19,010,392
Furniture and Equipment	1,610,136	47,280	(28,400)	1,629,016
Vehicles	1,245,046	158,345	0	1,403,391
Total at Historical Cost	<u>22,935,963</u>	<u>535,122</u>	<u>(28,400)</u>	<u>23,442,685</u>
Less Accumulated Depreciation				
Land Improvements	(281,140)	(60,151)	0	(341,291)
Buildings and Improvements	(8,115,614)	(388,058)	0	(8,503,672)
Furniture and Equipment	(1,312,856)	(31,566)	17,406	(1,327,016)
Vehicles	(1,050,021)	(46,345)	0	(1,096,366)
Total Accumulated Depreciation	<u>(10,759,631)</u>	<u>(526,120) *</u>	<u>17,406</u>	<u>(11,268,345)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>12,176,332</u>	<u>9,002</u>	<u>(10,994)</u>	<u>12,174,340</u>
Governmental Activities Capital Assets, Net	<u>\$12,390,834</u>	<u>\$9,002</u>	<u>(\$10,994)</u>	<u>\$12,388,842</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$167,009
Special	22,758
Vocational	5,685
Support Services:	
Pupils	16,257
Instructional Staff	55,678
Administration	33,050
Fiscal	8,150
Operation and Maintenance of Plant	100,766
Pupil Transportation	51,499
Central	2,038
Extracurricular	26,903
Operation of Non-Instructional Services:	
Food Service Operations	36,327
Total Depreciation Expense	<u>\$526,120</u>

Rolling Hills Local School District
Notes to the Basic Financial Statements
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Note 10 - Transfers and Internal Balances

A. Transfers

During fiscal year 2012, the General Fund transferred \$80,792 and \$5,000 to the Miscellaneous Local and Miscellaneous State Grants Special Funds, respectively. These transfers were made to move unrestricted revenues collected in the General Fund to help finance various programs accounted for in these funds in accordance with budgetary authorization.

B. Internal Balances

The governmental balance sheet reflects interfund receivables and payables in the amount of \$150,089. The General Fund made short-term loans to the Miscellaneous Local and Miscellaneous Federal Grants Special Revenue Funds in the amounts of \$5,279 and \$30,626, respectively. These interfund balances result from the provision of cash flow resources from the General Fund until the receipt of grant monies and local resources by these special revenue funds. In addition, cash deficit balances in the Race to the Top and Miscellaneous Federal Grants Special Revenue Funds in the amounts of \$51,842 and \$62,339, respectively, were covered by cash advances from the General Fund.

The above interfund balances are anticipated to be repaid within one fiscal year.

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted with the Government Underwriters of America through the Schwendeman Agency Coverage provided is as follows:

Commercial Property Coverage Blanket	\$57,881,000	\$1,000 deductible
Commercial Crime Coverage	\$25,000	\$500 deductible
Computer Equipment Coverage	\$500,000	\$1,000 deductible
Special Property Coverage	\$53,045 - \$273,253	\$1,000 deductible
Fleet Insurance:		
Liability	\$1,000,000	any one accident
Auto Medical Payments	\$5,000	any one accident
Uninsured Motorists	\$1,000,000	any one accident
Comprehensive	Cash Value	\$500 deductible
Collision	Cash Value	\$500 deductible
General Liability:		
Commercial General Liability	\$1,000,000	each occurrence
Personal and Advertising Injury	\$1,000,000	each offense
General Aggregate	\$3,000,000	
Products Aggregate	\$3,000,000	
Employee Benefits Liability	\$1,000,000	\$1,000 deductible
Employers' Liability	\$1,000,000	
Employment Practices	\$1,000,000	\$2,500 deductible
Aggregate	\$3,000,000	

Rolling Hills Local School District
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Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2011.

B. Workers' Compensation

For fiscal year 2012, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical Benefits

The School District has elected to provide employee medical/surgical, dental, and prescription drug benefits through a self-insured plan. Medical Benefits serves as claims servicer for this coverage. The claims liability of \$296,800 reported in the internal service fund at June 30, 2012, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in fiscal years 2011 and 2012 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2011	\$235,500	\$2,518,552	\$2,477,626	\$276,426
2012	276,426	2,418,453 (1)	2,398,079	296,800
(1) Claims Expense		\$2,323,786		
Increase in Stop Loss Reimbursement Receivable		<u>94,667</u>		
Current Year Claims		<u><u>\$2,418,453</u></u>		

Note 12 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Vacation can be accumulated to one year's worth of accrual plus ten days. Accumulated, unused vacation time, is paid to classified employees and administrators upon termination of employment. Teachers and administrators who work less than an eleven or twelve month basis do not earn vacation time.

Rolling Hills Local School District
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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 265 days for classified employees and administrative personnel and 265 days for certified employees. Upon retirement, all employees receive payment for one-fourth of their total sick leave accumulation.

B. Insurance

The School District provides life insurance and accidental death and dismemberment insurance to all full-time employees through CoreSorce in the amount of \$50,000.

C. Retirement Incentive

Rolling Hills Local School District offered a retirement incentive for any employee who retired in their first year of eligibility for fiscal years ending 2006, 2007, and 2008. Qualified employees would be paid \$40,000 in installments of \$8,000 over the following 5 years. The total cost of the retirement incentive was \$960,000. During fiscal year 2012, \$96,000 was paid, leaving an outstanding balance at June 30, 2012 of \$56,000 which will be paid in fiscal year 2013.

Note 13 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$301,322, \$214,320, and \$356,389, respectively. For fiscal year 2012, 91.70 percent has been contributed, with the remaining being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

Rolling Hills Local School District
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For the Fiscal Year Ended June 30, 2012

STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$924,212, \$859,880, and \$863,588, respectively. For fiscal year 2012, 85.82 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$18,747 made by the School District and \$3,439 made by the plan members.

C. 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, 2012, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages.

Note 14 - Postemployment Benefits

A. School Employees Retirement System

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800. During fiscal year 2012, the School District paid \$31,948 in surcharge.

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

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$44,997, \$76,411, and \$68,258, respectively. For fiscal year 2012, 26.59 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$17,795, \$14,811, and \$21,260, respectively. For fiscal year 2012, 91.70 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which 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

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$72,535, \$66,145, and \$66,430, respectively. For fiscal year 2012, 84.12 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Note 15 - Long-Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

	Outstanding 6/30/2011	Additions	Reductions	Outstanding 6/30/2012	Amounts Due Within One Year
Governmental Activities					
2010 Energy Conservation Notes					
Serial/Term Notes 2.0% - 4.15%	\$630,000	\$0	\$40,000	\$590,000	\$45,000
Capital Appreciation Notes 14.41%	27,824	0	0	27,824	0
Capital Appreciation Notes-					
Accretion of Interest	5,464	4,980	0	10,444	0
Premium	33,602	0	2,585	31,017	0
Total Energy Conservation Notes	696,890	4,980	42,585	659,285	45,000
Retirement Incentive	152,000	0	96,000	56,000	56,000
Compensated Absences Payable	1,015,768	36,282	62,883	989,167	83,145
Total Governmental Activities					
Long-Term Liabilities	<u>\$1,864,658</u>	<u>\$41,262</u>	<u>\$201,468</u>	<u>\$1,704,452</u>	<u>\$184,145</u>

2010 Energy Conservation Notes – On March 11, 2010, the School District issued \$707,824 of general obligation notes, pursuant to House Bill 264. The notes were issued to finance an energy conservation project. The notes were issued at 2.0 – 4.15 percent interest rate. The issuance of the notes included a \$38,772 premium and \$35,597 in note issuance costs that will be amortized over the life of the issue, with a final maturity at December 1, 2024. \$2,373 in issuance costs were amortized during fiscal year 2012.

As part of the note issuance, the School District, pursuant to Section 3317.18, Ohio Revised Code, and Section 3301-8-01, Ohio Administrative Code, participated in the Ohio Credit Enhancement Program, and was assigned a rating of Aa3 from Moody's Investors Service for the note issuance. In the event the School District is unable to make sufficient debt service payments and the payment will not be made by a credit enhancement facility, the department of education will make the sufficient payment.

The Current Interest Term Notes maturing on December 1, 2014, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2012	\$45,000
2013	50,000

The remaining principal amount of such Current Interest Term Notes (\$50,000) will be paid at stated maturity on December 1, 2014.

The Current Interest Term Notes maturing on December 1, 2017, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2015	\$45,000
2016	50,000

The remaining principal amount of such Current Interest Term Notes (\$50,000) will be paid at stated maturity on December 1, 2017.

The Current Interest Term Notes maturing on December 1, 2024, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2020	\$60,000
2021	60,000
2022	60,000
2023	60,000

The remaining principal amount of such Current Interest Term Notes (\$60,000) will be paid at stated maturity on December 1, 2024.

The Current Interest Notes maturing on or after December 1, 2020 are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any date on or after June 1, 2020, at a redemption price equal to 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The capital appreciation notes for the 2010 issue mature December 1, 2018 through December 1, 2019. At maturity all compounded interest is paid and the note holder receives the face value of the note. As the value of the note increases, the accretion is reflected as a liability. The maturity amount of the notes is \$100,000. Accretion during fiscal year 2012 amounted to \$4,980, leaving a total note liability of \$31,017.

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Principal and Interest requirements to retire the remaining outstanding notes for the 2010 Energy Conservation Notes outstanding at June 30, 2012 are as follows:

Fiscal Year	Serial/Term Notes		Capital Appreciation Notes		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2013	\$45,000	\$19,540	\$0	\$0	\$45,000	\$19,540
2014	50,000	18,590	0	0	50,000	18,590
2015	50,000	17,590	0	0	50,000	17,590
2016	45,000	16,370	0	0	45,000	16,370
2017	50,000	14,850	0	0	50,000	14,850
2018-2022	170,000	58,070	27,824	72,176	197,824	130,246
2023-2025	180,000	11,205	0	0	180,000	11,205
Totals	<u>\$590,000</u>	<u>\$156,215</u>	<u>\$27,824</u>	<u>\$72,176</u>	<u>\$617,824</u>	<u>\$228,391</u>

Compensated absences will be paid from the General Fund and the Food Service Special Revenue Fund.

The retirement incentive is only offered to certified staff, and will be paid by the General Fund.

The overall debt margin of the School District as of June 30, 2012, was \$21,034,085, with an unvoted debt margin of \$233,311.

Note 16 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments

Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments - The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council). The Council was created as a separate regional council of governments pursuant to State Statutes. The Council operates under the direction of a Board comprised of a representative from each participating school district. The Board possesses its own budgeting authority. The Council provides information technology and internet access to member districts, as well as cooperative purchasing programs. During fiscal year 2012, the total amount paid to OME-RESA from the School District was \$44,819 for cooperative gas purchasing services, \$10,260 for technology services and \$43,454 for financial accounting services and educational management information. The Jefferson County Educational Service Center serves as the fiscal agent. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

B. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational services to its thirteen member school districts. The Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the vocational school is not dependent on the District's continued participation and no equity interest exists. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 43701.

C. Metropolitan Educational Council

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 100 members which includes school district, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the cost of administering the program. The School District's membership payment to MEC for fiscal year 2012 was \$790. Financial information may be obtained from the Metropolitan Educational Council, Fiscal Officer, at 6100 Channingway Blvd, Suite 604, Columbus, Ohio 43232.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is comprised of fourteen members. The board members are comprised of one superintendent from each county elected by the school districts within that county. The Council provides various in-service 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 Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$325 for fiscal year 2012.

E. The Ohio Coalition of Equity and Adequacy of School Funding

The Ohio Coalition of Equity and Adequacy of School Funding is organized as a council of governments pursuant to Chapter 167 of the Ohio Revised Code. The Coalition was organized in 1990 to challenge the constitutionality of the Ohio school funding system. The Coalition is governed by a Steering Committee of 90 school district representatives. Though most of the representatives are superintendents, some treasurers, board members, and administrators also serve. Several persons serve as ex officio members. The membership of the coalition includes over 500 school districts throughout the State of Ohio. Member school districts and joint vocational schools pay dues of \$.05 per pupil. School districts and joint vocational schools may also pay supplemental dues in the amount of \$.50 per pupil for K-12 districts and educational service centers pay dues of \$.05 per pupil. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest or

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

financial responsibility for the Coalition. During fiscal year 2012, the School District paid \$952 to the Coalition. Financial information can be obtained by contacting the Coalition's fiscal agent, Muskingum Valley Educational Service Center, 205 North Seventh Street, Zanesville, Ohio 43701-3709.

Note 17 - Insurance Purchasing Pool

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

Note 18 - Contingencies

A. 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.

B. Litigation

The School District is currently not a party to any legal proceedings.

Note 19 - Set Asides

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 purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

Pursuant to State statute, the Board of Education expended all of the amounts previously set-aside for the budget reserve.

Effective June 30, 2005, through Amended Substitute House Bill 66, School Districts that are declared to be in Fiscal Caution, may either reduce or eliminate the set-aside, provided that the Districts apply and receive approval from the Ohio Department of Education. The Rolling Hills Local School District remained in Fiscal Caution during fiscal year 2012, but did not request a waiver of the set-aside requirement for fiscal year 2012.

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

	<u>Capital Improvements</u>
Set-aside Restricted Balance as of June 30, 2011	\$0
Current Year Set-aside Requirement	317,321
Current Year Offsets	(89,439)
Current Year Qualifying Expenditures	<u>(317,321)</u>
Total	<u>(\$89,439)</u>
Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Set-aside Restricted Balance as of June 30, 2012	<u>\$0</u>

Effective July 1, 2011, House Bill 30, the “Unfunded Mandates Relief Act”, eliminated the requirement that school districts annually set aside an amount per pupil into a textbook and instructional materials fund.

The School District has capital expenditures from debt proceeds in connection with an energy conservation project that may be utilized to offset future set-aside requirements.

Note 20 - Going Concerns

The School District was placed in Fiscal Caution on March 24, 2006, by the Ohio Department of Education. The School District submitted a proposal to the Ohio Department of Education on May 24, 2006, to avoid a potential deficit in future fiscal years. The Ohio Department of Education accepted the proposal on June 14, 2006.

The School District implemented an expenditure reduction plan during fiscal years 2006 and 2007 which included a reduction in force, retirements, and resignations. The School District reduced expenditures by eliminating bus routes, eliminating summer school, reducing supplies, and implementing pay to play for extracurricular activities. The School District also implemented a pay freeze, including no step increases for fiscal year 2006 for teachers and administrators.

In November, 2011, the School District passed a renewal of their General Emergency Levy. The collections for this levy will begin in calendar year 2013.

The five year forecast submitted to the Ohio Department of Education on October 26, 2012, reflects a positive General Fund balance for fiscal year 2013, and deficit General Fund balances for fiscal years 2014 through 2017. The School District continues to be in “Fiscal Caution” and is being monitored by the Ohio Department of Education as of the date of the financial statements.

Rolling Hills Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2011/2012	10.555	\$ 20,543	\$ 20,543
Cash Assistance:				
School Breakfast Program	2011/2012	10.553	238,746	238,746
National School Lunch Program	2011/2012	10.555	473,478	473,478
Cash Assistance Subtotal			<u>712,224</u>	<u>712,224</u>
Total Child Nutrition Cluster			<u>732,767</u>	<u>732,767</u>
Total U.S. Department of Agriculture			732,767	732,767
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title 1, Part A Cluster:				
Title 1, Part A Grants to Local Educational Agencies	2011	84.010	63,261	155,199
	2012		800,624	785,094
Total Title 1, Part A Grants to Local Educational Agencies			<u>863,885</u>	<u>940,293</u>
ARRA - Title 1 Grants to Local Educational Agencies	2011	84.389	16,235	18,534
Total Title 1, Part A Cluster			880,120	958,827
Special Education Cluster:				
Special Education - Grants to States	2011	84.027	20,409	35,667
	2012		330,296	329,014
Total Special Education - Grants to States			<u>350,705</u>	<u>364,681</u>
Special Education - Preschool Grants	2012	84.173	14,798	14,798
ARRA - Special Education - Grants to States	2011	84.391	35,309	41,995
Total Special Education Cluster			400,812	421,474
Safe and Drug-Free Schools and Communities - State Grants	2011	84.186	4,352	4,956
Educational Technology State Grants	2011	84.318	(605)	
	2012		10,405	10,373
Total Educational Technology State Grants			<u>9,800</u>	<u>10,373</u>
Rural Education	2011	84.358	39,762	
	2012			68,575
Total Rural Education			<u>39,762</u>	<u>68,575</u>
Improving Teacher Quality State Grants	2011	84.367	78,621	18,557
	2012		118,898	118,348
Total Improving Teacher Quality State Grants			<u>197,519</u>	<u>136,905</u>
ARRA - Teacher Incentive Fund	2011	84.385	31,718	10,785
	2012		16,700	76,754
Total ARRA - Teacher Incentive Fund			<u>48,418</u>	<u>87,539</u>
ARRA - Race to the Top Incentive Grants				
Race to the Top	2011	84.395	(2,754)	(154)
Race to the Top	2012		88,252	92,676
Ohio Appalachian Collaborative (OAC)	2011		41,910	46,797
Ohio Appalachian Collaborative (OAC)	2012		29,659	77,078
Ohio Resident Educator Program	2012		2,450	2,450
Total ARRA - Race to the Top Incentive Grants			<u>159,517</u>	<u>218,847</u>
Education Jobs	2012	84.410	462,056	444,118
Total U.S. Department of Education			<u>2,202,356</u>	<u>2,351,614</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 2,935,123</u>	<u>\$ 3,084,381</u>

The Notes to the Federal Awards Receipts and Expenditures Schedule is an integral part of the Schedule.

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the School 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 School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

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

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
ARRA-Race to the Top-ODE	84.395	\$2,754



Dave Yost • Auditor of State

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

Rolling Hills Local School District
Guernsey County
P.O. Box 38
Byesville, Ohio 43723

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Rolling Hills Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated March 25, 2013.

We intend this report solely for the information and use of management, the audit committee, the Board of Education, federal awarding agencies and pass-through entities and others within the School District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

March 25, 2013



Dave Yost • Auditor of State

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

Rolling Hills Local School District
Guernsey County
P.O. Box 38
Byesville, Ohio 43723

To the Board of Education:

Compliance

We have audited the compliance of the Rolling Hills Local School District, Guernsey County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2012. The Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with these requirements.

As described in Findings 2012-001 and 2012-002 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with requirements regarding Cash Management applicable to its Title I, Part A Cluster, Special Education Cluster, Education Jobs and ARRA-Race to the Top major federal programs and Allowable Costs/Cost Principles applicable to its Title I, Part A Cluster and ARRA-Race to the Top major federal programs. Compliance with these requirements is necessary, in our opinion, for the School District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-001 and 2012-002 to be material weaknesses.

The School District's response to the findings we identified is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's responses and, accordingly, we express no opinion on them.

We also noted matters involving federal compliance and internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated March 25, 2013.

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



Dave Yost
Auditor of State

March 25, 2013

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions 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 weakness conditions reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified for all major programs, except for the Cash Management provision requirements applicable to the Title I, Part A Cluster, Special Education Cluster, Education Jobs and ARRA-Race to the Top programs, and the Allowable Costs/Cost Principles provision requirements applicable to the Title I, Part A Cluster and ARRA-Race to the Top programs, which we qualified.
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I, Part A Cluster, CFDA #84.010, 84.389 Special Education Cluster, CFDA #84.027, 84.173, 84.391 ARRA – Race to the Top, CFDA #84.395 Education Jobs, CFDA #84.410
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2012-001
CFDA Title and Number	Title I, Part A Cluster, CFDA #84.010, 84.389 ARRA – Teacher Incentive Fund, CFDA #84.385 ARRA-Race to the Top, CFDA #84.395
Federal Award Number / Year	2011/2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Costs, Noncompliance and Material Weakness – Allowable Costs/Cost Principles

2 C.F.R. Part 225, Appendix B 8h(3)(4) states where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- a.) More than one Federal award,
- b.) A Federal award and a non-Federal award,
- c.) An indirect cost activity and a direct cost activity,
- d.) Two or more indirect activities which are allocated using different allocation bases, or
- e.) An unallowable activity and a direct or indirect cost activity.

These requirements are applicable to both federal and state grants administered from Ohio Department of Education resources.

During fiscal year 2012, the School District provided personnel activity reports (timesheets) for the Curriculum Coordinator; however, the timesheets were not detailed to support payments of \$11,413 from the Race to the Top Fund, \$20,691 from the Title I, Part A Cluster Fund and \$36,171 from the Teacher Incentive Fund.

ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number 2012-001 (Continued)

Questioned Costs, Noncompliance and Material Weakness – Allowable Costs/Cost Principles (Continued)

The School District is required to provide time and effort documentation for any employee which is paid from more than one source. This time and effort documentation must be contemporaneous and reflective of actual hours worked. A special system designed to meet this requirement is not required if the local entity can provide clear, concise and unambiguous documentation that the standard was met.

Therefore, we have identified \$11,413 of known questioned costs for the Race to the Top Fund, \$20,691 of known questioned costs for the Title I, Part A Cluster Fund and \$36,171 of known questioned costs for the Teacher Incentive Fund.

We also determined the School District did not have semi-annual certifications on file to support employee wages paid from the Education Jobs Fund for FY 2012. We also found the CCIP Coordinator did not have semi-annual certifications on file to support her wages paid from the Title I, Part A Cluster Fund for FY 2012. Failure to follow time and effort requirements could result in questioned costs.

We recommend personnel activity reports (timesheets) be maintained with enough detail to support the charges for employees who work on more than one federal award. We further recommend semi-annual certifications be used in lieu of time and effort documentation only in cases where the employee is conducting work under one cost objective and is funded from only one source.

Officials' Response and Corrective Action Plan: The Rolling Hills Local School District is reviewing the current procedures related to employees being paid with federal monies and in the process of updating our procedures to address time and effort documentation.

Responsible Contact Person – Kandi Fuller, Treasurer; Anticipated completion date—June 30, 2013.

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2012-002
CFDA Title and Number	Title I, Part A Cluster, CFDA #84.010, 84.389 Special Education Cluster, CFDA #84.027, 84.173, 84.391 ARRA-Race to the Top, CFDA #84.395 Education Jobs, CFDA #84.410
Federal Award Number / Year	2011/2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness – Cash Management

34 C.F.R. 80.21(c) states grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

34 C.F.R. 80.20(b) states the financial management systems of other grantees and subgrantees must meet the following standards: "(7) Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used...". When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Ohio Department of Education CCIP Note #284 states all cash requests must be compliant with the provisions of the Cash Management Improvement Act (34 C.F.R. 80.21). To receive approval consideration, cash requests must be made *for immediate needs for the month requested*. Ohio Department of Education Project Cash Request Instructions state the Ohio Department of Education (ODE) will initiate the first payment of project funds to school districts and agencies upon project approval. Subsequent payments must be requested as needed and for immediate cash needs. Funds may be requested for a maximum of one (1) month plus any negative cash balance. To comply with the "Cash Management Act" 31 C.F.R. part 205, the time lapsed between the receipt and disbursement of funds must be minimized; this includes any draw down of project funds by June 30. Funds MUST be expended within the period of time for which cash is requested.

During fiscal year 2012 we noted the following:

- Within the Title I, Part A Cluster Funds, we found eleven of the fourteen drawdowns were not spent by the end of the month for which the funds were requested. The unspent balance at the end of the month for which the funds were requested ranged from \$1,000 to \$36,468;
- Within the Special Education Cluster Funds, we found six of the twelve drawdowns were not spent by the end of the month for which the funds were requested. The unspent balance at the end of the month for which the funds were requested ranged from \$812 to \$16,792;

ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number 2012-002 (Continued)

Noncompliance and Material Weakness – Cash Management (Continued)

- Within the Education Jobs Fund, we found four of the ten drawdowns were not spent by the end of the month for which the funds were requested. The unspent balance at the end of the month for which the funds were requested ranged from \$2,226 to \$17,938; and
- Within the Race to the Top Funds, we found four of the eight drawdowns were not spent by the end of the month for which the funds were requested. The unspent balance at the end of the month for which the funds were requested ranged from \$2,996 to \$7,140.

We recommend the School District monitor the cash balances in these funds to determine when these expenditures should be made and/or how much cash to request. This will help ensure that the monies drawn down are expended within the required time frame. These funds should be expended by the end of the month in which funds were requested. Also, Ohio Department of Education CCIP Note #253 made changes to the initial cash request in July for Ed Jobs and ARRA-Race to the Top programs. The School District will not lose access to the funds in July and still have full access to their entire allocations.

Officials' Response and Corrective Action Plan: The Rolling Hills Local School District is reviewing the cash management procedures and will implement revised procedures that will allow us to better monitor and manage the funds we receive from federal sources. This new procedure will allow us to minimize the time lapsed between receipt and disbursement of funds.

Responsible contact person: Kandi Fuller, Treasurer; Anticipated completion date—June 30, 2013

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	The School District did not include prior year encumbrances of \$1,095,679 in the original and final budgeted expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund.	Yes	N/A



Dave Yost • Auditor of State

ROLLING HILLS LOCAL SCHOOL DISTRICT

GUERNSEY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 4, 2013