

Hillsboro City School District
Highland County, Ohio

Single Audit

July 1, 2009 through June 30, 2010
Fiscal Years Audited Under GAGAS: 2010



Balestra, Harr & Scherer, CPAs, Inc.

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Dave Yost • Auditor of State

Board of Education
Hillsboro City School District
338 West Main Street
Hillsboro, OH 45133

We have reviewed the *Independent Auditor's Report* of the Hillsboro City School District, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Finding for Recovery

Ohio Rev. Code Section 2921.41 prohibits committing any theft offense when the offender uses the offender's office in the aid of committing the offense and the property or service involved is owned by the state, any other state, the United States, a county, a municipal corporation, a township, or any political subdivision, department, or agency of any of them, is owned by a political party, or is part of a political campaign fund. Whoever violates this section is guilty of theft in office.

The District's Elementary School Head Cook, Pam Ward was responsible for reviewing daily deposit slip reports prepared by cashiers from the PCS Revenue Control System (System) for monies collected from lunchroom sales. Ms. Ward was also responsible for depositing the monies with the bank. Deposits made by the Head Cook to the bank included a deposit slip report from the System and cash and checks received from the lunchroom sales.

During the period of January 4, 2010 through April 30, 2010, the District's System reported lunchroom sales collected for 71 days totaling \$44,954. Upon review of the deposits made with the bank during this period it was determined that the District only deposited \$38,406 for elementary school lunchroom sales and 58 of the daily deposits made did not agree to the System.

In addition, the Head Cook was responsible for submitting to the District Treasurer the deposit receipt from the bank and a CN-7 report that documented the daily receipts collected by the elementary school and for reporting the cash receipts collected to the Ohio Department of Education (ODE) monthly. Upon review of the CN-7 reports submitted to the Treasurer it was determined that the reports were altered to agree to the amount deposited and did not agree to the amounts recorded in the System. Also, the cash receipts reported to ODE did not agree to the System and were understated to agree to the amounts deposited by the Head Cook.

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The difference between the \$44,954 recorded in the System and the \$38,406 deposited with the bank resulted in a shortage of \$6,548 deposited in the bank by Ms. Ward.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued against the former Elementary School Head Cook, Pam Ward, totaling \$6,548, for public monies collected but unaccounted for and in favor of the Hillsboro City School District – Food Service Fund for \$6,548.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hillsboro City School District is responsible for compliance with these laws and regulations.

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

September 11, 2012

Hillsboro City School District
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Independent Auditor's Report

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, OH 45133

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsboro City School District, Highland County, Ohio, (the School District), as of and for the year ended June 30, 2010, 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 Hillsboro City School District, Highland County, Ohio, as of June 30, 2010, 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.

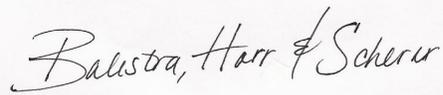
In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2011 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board
Hillsboro City School District
Independent Auditor's Report
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We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the financial statements, the School District has changed the method by which the accrual for compensated absences is calculated. In the past the School District used the vesting method, the School District has changed to the termination method in the current year.



Balestra, Harr & Scherer, CPAs, Inc.
March 4, 2011

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The discussion and analysis of Hillsboro City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

- The assets of the Hillsboro City School District exceeded its liabilities at June 30, 2010 by \$59,292,495. Of this amount, \$2,328,757 may be used to meet the School District's ongoing financial obligations.
- The School District's net assets decreased \$1,900,835.
- Governmental activities general revenues accounted for \$21,515,265 or 78 percent of total revenues. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$5,947,016, or 22 percent of total governmental revenues of \$27,462,281.
- The School District had \$29,363,116 in expenses related to governmental activities; only \$5,947,016 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest. General revenues (primarily grants, entitlements, income taxes and property taxes) of \$21,515,265 were used to provide for these programs along with unrestricted net assets from prior fiscal years.

Using the Basic Financial Statements

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

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

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2010?” The Statement of Net Assets and the Statement of Activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net 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. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

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

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

Proprietary Fund - Proprietary fund reporting focuses on the determination of operating income, 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. The Internal Service Fund was used to account for the dental benefits provided to employees until August 2009.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

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

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for fiscal years 2010 and 2009:

(Table 1)
Net Assets
Governmental Activities

	2010	2009*	Change in Net Assets
Assets:			
Current and Other Assets	\$16,388,329	\$23,848,074	(\$7,459,745)
Capital Assets, Net	64,660,576	60,450,055	4,210,521
Total Assets	<u>81,048,905</u>	<u>84,298,129</u>	<u>(3,249,224)</u>
Liabilities:			
Other Liabilities	8,935,027	9,990,354	(1,055,327)
Long-Term Liabilities	12,821,383	13,114,445	(293,062)
Total Liabilities	<u>21,756,410</u>	<u>23,104,799</u>	<u>(1,348,389)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	52,815,576	48,220,055	4,595,521
Restricted	4,148,162	10,675,456	(6,527,294)
Unrestricted	2,328,757	2,297,819	30,938
Total Net Assets	<u>\$59,292,495</u>	<u>\$61,193,330</u>	<u>(\$1,900,835)</u>

* Amount restated. See Note 3 to the Basic Financial Statements.

Current and other assets decreased \$7,459,745, due primarily to cash expenditures for capital outlay related to the completion of construction of the new middle/high school, which caused capital assets to increase. In addition, the School District incurred expenses for the construction of a turn lane on State Route 62, near the new buildings. These items were not capitalized by the School District.

Other liabilities decreased \$1,055,327 due to decreases in contracts payable related to the construction project. Long-term liabilities decreased \$293,062, due primarily to payments on long-term debt.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Invested in capital assets, net of related debt increased \$4,595,521, due to additions to capital assets, including the completion of the new middle/high school, offset by depreciation expense. Restricted net assets decreased \$6,527,294 during fiscal year 2010, which was related to the depletion of cash resources in completing the new construction.

Table 2 shows the changes in net assets for fiscal years 2010 and 2009.

(Table 2)
 Changes in Net Assets
 Governmental Activities

	2010	2009*	Change
Revenues:			
Program Revenues:			
Charges for Services and Sales	\$1,624,385	\$1,553,737	\$70,648
Operating Grants, Contributions and Interest	4,282,631	4,132,635	149,996
Capital Grants and Contributions	40,000	31,043	8,957
Total Program Revenues	<u>5,947,016</u>	<u>5,717,415</u>	<u>229,601</u>
General Revenues:			
Property Taxes	6,533,491	6,430,216	103,275
Income Taxes	2,243,920	2,663,925	(420,005)
Grants and Entitlements not Restricted to Specific Programs	12,381,279	10,080,135	2,301,144
Gifts and Donations	9,659	7,500	2,159
Interest	227,815	412,703	(184,888)
Miscellaneous	119,101	328,003	(208,902)
Total General Revenues	<u>21,515,265</u>	<u>19,922,482</u>	<u>1,592,783</u>
Total Revenues	<u>\$27,462,281</u>	<u>\$25,639,897</u>	<u>\$1,822,384</u>
Program Expenses:			
Instruction	16,009,175	14,477,886	1,531,289
Support Services:			
Pupils and Instructional Staff	3,319,220	2,748,159	571,061
Board of Education, Administration, Fiscal and Business	2,930,188	2,946,863	(16,675)
Operations and Maintenance of Plant	2,738,727	1,643,932	1,094,795
Pupil Transportation	1,864,812	1,555,441	309,371
Central	114,863	114,753	110
Operation of Non-Instructional Services	1,223,917	1,187,587	36,330
Extracurricular Activities	592,612	496,519	96,093
Interest and Fiscal Charges	569,602	588,133	(18,531)
Total Expenses	<u>29,363,116</u>	<u>25,759,273</u>	<u>3,603,843</u>
Decrease in Net Assets	(1,900,835)	(119,376)	(1,781,459)
Net Assets at Beginning of Year	61,193,330	61,312,706	(119,376)
Net Assets at End of Year	<u>\$59,292,495</u>	<u>\$61,193,330</u>	<u>(\$1,900,835)</u>

* Amount restated. See Note 3 to the Basic Financial Statements.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Governmental Activities

Income taxes decreased by \$420,005 during fiscal year 2010, due to an extreme decline in the local economy and continuing record highs in unemployment. Grants and entitlements not restricted to specific programs increased \$2,301,144 due to the receipt of State fiscal stabilization funds. Miscellaneous revenue decreased by \$208,902, due mainly to changes in coding of receipts in the school building funds. In prior fiscal years, these were reported as miscellaneous revenue. However, in fiscal year 2010, a large portion of these receipts were reclassified as program revenues.

Overall, program expenses increased. This was mostly due to depreciation expense for fiscal year 2010. In addition, operation and maintenance of plant increased significantly, due to expenses recognized for the demolition of the old high school and middle school buildings.

The School District remains heavily reliant on State funding. Grants and entitlements made up 45 percent of revenues for governmental activities of the Hillsboro City School District for fiscal year 2010.

Instruction comprises 55 percent of governmental activities program expenses. Support services expenses make up 37 percent of governmental activities expenses.

The Statement of Activities shows the cost of program services and the charges for services and sales and grants, contributions and interest offsetting those services. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations.

(Table 3)
Governmental Activities

	Total Cost of Services 2010	Total Cost of Services 2009*	Net Cost of Services 2010	Net Cost of Services 2009
Instruction	\$16,009,175	\$14,477,886	\$12,698,432	\$10,781,810
Support Services	10,967,810	9,009,148	9,872,993	8,182,193
Operation of Non-Instructional Services	1,223,917	1,187,587	17,737	21,235
Extracurricular Activities	592,612	496,519	257,336	376,658
Interest and Fiscal Charges	569,602	588,133	569,602	588,133
Total Expenses	\$29,363,116	\$25,759,273	\$23,416,100	\$19,950,029

* Amount restated. See Note 3 to the Basic Financial Statements.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$30,354,318 and expenditures of \$33,692,184. The net change in fund balance for the fiscal year was most significant in the OSFC Construction Fund, a decrease of \$3,638,244. This was due to the depletion of cash resources used in construction of the new middle/high school.

The General Fund saw an increase of \$23,952, and the Debt Service Fund saw an increase of \$206,213 during the fiscal year.

General Fund - Budget Highlights

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

During the course of fiscal year 2010 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 17, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, the original budget basis revenue was \$21,495,955 with a final budget estimate of \$21,060,938. The decrease of \$435,017 was primarily due to decreases in income and property taxes, offset by an increase in intergovernmental revenues. The variance between actual revenues and budgeted revenues was only \$13,409.

Original budget basis appropriations were \$20,795,955 with final budget basis appropriations of \$21,211,365, a variance of \$415,410, due to overall increases in expenditures. The School District's actual expenditures and encumbrances were equal to final budgeted appropriations.

The School District's ending unobligated cash balance was \$3,250,633.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the School District had \$64,660,576 invested in land, buildings and improvements, furniture, fixtures and equipment, vehicles and textbooks. Table 4 shows fiscal year 2010 balances compared to fiscal year 2009:

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

(Table 4)
 Capital Assets at June 30
 (Net of Depreciation)
 Governmental Activities

	2010	2009*	Change
Land	\$574,464	\$574,464	\$0
Construction in Progress	0	31,696,071	(31,696,071)
Buildings and Improvements	61,187,837	25,064,128	36,123,709
Furniture, Fixtures and Equipment	2,171,593	2,241,806	(70,213)
Vehicles	629,427	711,495	(82,068)
Textbooks	97,255	162,091	(64,836)
Totals	<u>\$64,660,576</u>	<u>\$60,450,055</u>	<u>\$4,210,521</u>

* Amounts restated. See Note 3 to the Basic Financial Statements.

Net capital assets increased from the prior fiscal year due to completed construction during the fiscal year.

For more information on capital assets, refer to note 9 to the basic financial statements.

Debt

At June 30, 2010, the School District had \$11,085,000 in bonds outstanding, \$375,000 of which is due within one year. Table 5 summarizes bonds outstanding at fiscal year-end 2010 and 2009:

(Table 5)
 Outstanding Debt, at Fiscal Year-End

	2010	2009
General Obligation Bonds:		
School Improvement Bonds	<u>\$11,085,000</u>	<u>\$11,450,000</u>

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

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

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

At June 30, 2010 the School District's overall legal debt margin was \$15,062,287 with an unvoted debt margin of \$275,780.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Debbie Lawwell, Treasurer at Hillsboro City School District, 338 West Main Street, Hillsboro, Ohio 45133.

Hillsboro City School District

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$7,984,442
Materials and Supplies Inventory	1,384
Inventory Held for Resale	3,586
Accounts Receivable	20,792
Accrued Interest Receivable	2,178
Intergovernmental Receivable	537,584
Property Taxes Receivable	6,485,817
Income Taxes Receivable	940,453
Cash and Cash Equivalents with Escrow Agent	412,093
Capital Assets:	
Land	574,464
Depreciable Capital Assets, Net	<u>64,086,112</u>
 Total Assets	 <u>81,048,905</u>
 Liabilities:	
Accounts Payable	93,600
Accrued Wages and Benefits Payable	1,883,970
Contracts Payable	733,664
Retainage Payable	412,093
Intergovernmental Payable	393,290
Deferred Revenue	5,374,183
Accrued Interest Payable	44,227
Long-Term Liabilities:	
Due Within One Year	496,348
Due in More Than One Year	<u>12,325,035</u>
 Total Liabilities	 <u>21,756,410</u>
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	52,815,576
Restricted for:	
Set Asides	75,952
Debt Service	1,349,221
Capital Outlay	1,046,870
Classroom Facilities	1,059,571
Other Purposes	611,453
Library Materials and Services:	
Expendable	93
Nonexpendable	5,002
Unrestricted	<u>2,328,757</u>
 Total Net Assets	 <u><u>\$59,292,495</u></u>

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$12,616,479	\$764,773	\$246,638	\$0	(\$11,605,068)
Special	2,030,672	71,576	1,894,503	0	(64,593)
Vocational	721,539	53,682	139,574	0	(528,283)
Student Intervention Services	640,485	35,787	104,210	0	(500,488)
Support Services:					
Pupils	1,027,832	0	0	0	(1,027,832)
Instructional Staff	2,291,388	0	612,172	0	(1,679,216)
Board of Education	40,181	0	0	0	(40,181)
Administration	2,252,810	0	166,830	0	(2,085,980)
Fiscal	635,820	0	0	0	(635,820)
Business	1,377	0	0	0	(1,377)
Operation and Maintenance of Plant	2,738,727	6,794	208,440	0	(2,523,493)
Pupil Transportation	1,864,812	0	95,581	0	(1,769,231)
Central	114,863	0	5,000	0	(109,863)
Operation of Non-Instructional Services:					
Community Services	137,110	0	93,810	0	(43,300)
Food Service Operations	1,086,807	410,795	701,575	0	25,563
Extracurricular Activities	592,612	280,978	14,298	40,000	(257,336)
Interest and Fiscal Charges	569,602	0	0	0	(569,602)
Total Governmental Activities	\$29,363,116	\$1,624,385	\$4,282,631	\$40,000	(23,416,100)
General Revenues:					
Property Taxes Levied for:					
					5,406,093
					1,014,640
					112,758
					2,243,920
					12,381,279
					9,659
					227,815
					119,101
					21,515,265
					(1,900,835)
					61,193,330
					\$59,292,495

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District

Balance Sheet
Governmental Funds
June 30, 2010

	General	Debt Service	Classroom Facilities	All Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$3,287,258	\$1,218,151	\$1,601,209	\$1,717,245	\$7,823,863
Materials and Supplies Inventory	0	0	0	1,384	1,384
Inventory Held for Resale	0	0	0	3,586	3,586
Accounts Receivable	13,533	0	0	7,259	20,792
Accrued Interest Receivable	692	0	0	1,486	2,178
Intergovernmental Receivable	78,913	0	0	458,671	537,584
Property Taxes Receivable	5,369,043	1,005,275	0	111,499	6,485,817
Income Taxes Receivable	940,453	0	0	0	940,453
Interfund Receivable	380,969	0	0	0	380,969
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	75,952	0	0	0	75,952
Cash and Cash Equivalents with Escrow Agent	0	0	412,093	0	412,093
Total Assets	<u>\$10,146,813</u>	<u>\$2,223,426</u>	<u>\$2,013,302</u>	<u>\$2,301,130</u>	<u>\$16,684,671</u>
Liabilities:					
Accounts Payable	\$39,367	\$0	\$9,069	\$45,164	\$93,600
Accrued Wages and Benefits Payable	1,598,983	0	0	272,306	1,871,289
Contracts Payable	0	0	733,664	0	733,664
Retainage Payable	0	0	412,093	0	412,093
Intergovernmental Payable	325,394	0	0	67,896	393,290
Interfund Payable	0	0	0	380,969	380,969
Deferred Revenue	4,946,875	896,295	0	207,990	6,051,160
Total Liabilities	<u>6,910,619</u>	<u>896,295</u>	<u>1,154,826</u>	<u>974,325</u>	<u>9,936,065</u>
Fund Balances:					
Reserved for Encumbrances	105,533	0	112,505	67,169	285,207
Reserved for Property Taxes	567,762	108,980	0	11,704	688,446
Reserved for Budget Stabilization	75,952	0	0	0	75,952
Reserved for Library Materials and Services	0	0	0	5,000	5,000
Unreserved:					
Undesignated, Reported in:					
General Fund	2,486,947	0	0	0	2,486,947
Special Revenue Funds	0	0	0	1,054,443	1,054,443
Debt Service Fund	0	1,218,151	0	0	1,218,151
Capital Projects Funds	0	0	745,971	188,394	934,365
Permanent Fund	0	0	0	95	95
Total Fund Balances	<u>3,236,194</u>	<u>1,327,131</u>	<u>858,476</u>	<u>1,326,805</u>	<u>6,748,606</u>
Total Liabilities and Fund Balances	<u>\$10,146,813</u>	<u>\$2,223,426</u>	<u>\$2,013,302</u>	<u>\$2,301,130</u>	<u>\$16,684,671</u>

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2010

Total Governmental Fund Balances \$6,748,606

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

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

Capital assets	74,453,234	
Accumulated depreciation	(9,792,658)	
Total capital assets	64,660,576	64,660,576

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

Property Taxes	423,188	
Income Taxes	135,428	
Intergovernmental	105,618	
Tuition and Fees	10,166	
Other	2,483	
Customer Sales and Services	94	
	676,977	676,977

The Internal Service Fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets. 71,946

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (44,227)

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

Bonds payable	(11,085,000)	
Capital leases	(760,000)	
Compensated absences	(976,383)	
	(12,821,383)	(12,821,383)

Net Assets of Governmental Activities \$59,292,495

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Debt Service	Classroom Facilities	All Other Governmental Funds	Total Governmental Funds
Revenues:					
Property Taxes	\$5,347,949	\$1,003,778	\$0	\$111,607	\$6,463,334
Income Taxes	2,259,969	0	0	0	2,259,969
Intergovernmental	12,728,844	136,060	2,880,176	3,863,441	19,608,521
Interest	160,914	0	56,069	10,811	227,794
Tuition and Fees	884,529	0	0	0	884,529
Extracurricular Activities	0	0	0	280,978	280,978
Customer Sales and Services	0	0	0	441,824	441,824
Rent	6,794	0	0	0	6,794
Gifts and Donations	9,659	0	0	54,298	63,957
Miscellaneous	27,106	0	8,090	81,422	116,618
Total Revenues	21,425,764	1,139,838	2,944,335	4,844,381	30,354,318
Expenditures:					
Current:					
Instruction:					
Regular	10,334,239	0	0	537,577	10,871,816
Special	1,021,540	0	0	946,530	1,968,070
Vocational	702,858	0	0	0	702,858
Student Intervention Services	531,883	0	0	103,776	635,659
Support Services:					
Pupils	1,013,624	0	0	7,397	1,021,021
Instructional Staff	1,312,363	0	0	950,883	2,263,246
Board of Education	40,181	0	0	0	40,181
Administration	1,760,708	0	0	323,991	2,084,699
Fiscal	581,828	30,929	0	3,761	616,518
Business	1,377	0	0	0	1,377
Operation and Maintenance of Plant	1,756,684	0	471,046	261,994	2,489,724
Pupil Transportation	1,464,957	0	0	275,391	1,740,348
Central	97,757	0	0	16,432	114,189
Operation of Non-Instructional Services:					
Community Services	6,889	0	0	130,221	137,110
Food Service Operations	0	0	0	1,015,585	1,015,585
Extracurricular Activities	403,653	0	0	190,901	594,554
Capital Outlay	0	0	6,432,719	4,150	6,436,869
Debt Service:					
Principal Retirement	0	385,000	0	0	385,000
Interest and Fiscal Charges	0	573,360	0	0	573,360
Total Expenditures	21,030,541	989,289	6,903,765	4,768,589	33,692,184
Excess of Revenues Over (Under) Expenditures	395,223	150,549	(3,959,430)	75,792	(3,337,866)
Other Financing Sources (Uses):					
Transfers In	200,013	55,664	321,186	315,606	892,469
Transfers Out	(571,284)	0	0	(321,185)	(892,469)
Total Other Financing Sources (Uses)	(371,271)	55,664	321,186	(5,579)	0
Net Change in Fund Balances	23,952	206,213	(3,638,244)	70,213	(3,337,866)
Fund Balances at Beginning of Year - Restated (See Note 3)	3,212,242	1,120,918	4,496,720	1,256,592	10,086,472
Fund Balances at End of Year	\$3,236,194	\$1,327,131	\$858,476	\$1,326,805	\$6,748,606

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
 Reconciliation of the Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds (\$3,337,866)

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

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

Capital assets additions	6,732,038	
Depreciation expense	(2,521,517)	
		4,210,521

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

Delinquent property taxes	70,157	
Income taxes	(16,049)	
Intergovernmental	(2,958,909)	
Tuition and fees	10,166	
Customer sales and services	94	
Other	2,483	
		(2,892,058)

The Internal Service Fund used by management to charge the cost of insurance to individual funds is reported in the entity-wide Statement of Activities (151,110)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds:

Accrued interest on bonds		3,758
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Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

In the current fiscal year, this amount consisted of:

Bond principal retirement	365,000	
Capital lease payments	20,000	
		385,000

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

Increase in compensated absences		(119,080)
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Change in Net Assets of Governmental Activities (\$1,900,835)

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$5,932,754	\$5,069,588	\$5,072,816	\$3,228
Income Taxes	2,658,596	2,271,793	2,273,239	1,446
Intergovernmental	11,890,918	12,641,854	12,649,931	8,077
Interest	140,684	149,568	149,663	95
Tuition and Fees	831,317	883,816	884,379	563
Rent	6,300	6,698	6,698	0
Gifts and Donations	9,085	9,659	9,659	0
Miscellaneous	26,301	27,962	27,962	0
Total Revenues	21,495,955	21,060,938	21,074,347	13,409
Expenditures:				
Current:				
Instruction:				
Regular	8,686,594	8,860,113	8,861,961	(1,848)
Special	999,943	1,019,917	1,018,069	1,848
Vocational	699,243	713,211	713,211	0
Student Intervention Services	541,497	552,314	552,314	0
Other	1,542,993	1,573,815	1,573,815	0
Support Services:				
Pupils	998,884	1,018,837	1,018,837	0
Instructional Staff	1,292,323	1,318,138	1,318,138	0
Board of Education	39,129	39,911	39,911	0
Administration	1,749,533	1,784,481	1,784,481	0
Fiscal	543,402	554,257	554,257	0
Business	1,350	1,377	1,377	0
Operation and Maintenance of Plant	1,787,008	1,822,704	1,822,704	0
Pupil Transportation	1,419,691	1,448,050	1,448,050	0
Central	97,971	99,928	99,928	0
Operation of Non-Instructional Services:				
Community Services	5,026	5,126	5,126	0
Food Service Operations	1,728	1,763	1,763	0
Extracurricular Activities	389,640	397,423	397,423	0
Total Expenditures	20,795,955	21,211,365	21,211,365	0
Excess of Revenues Over (Under) Expenditures	700,000	(150,427)	(137,018)	13,409
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	621	660	660	0
Transfers In	188,013	199,886	200,013	127
Advances In	324,795	345,307	345,527	220
Transfers Out	(445,830)	(454,736)	(454,736)	0
Advances Out	(344,096)	(350,969)	(350,969)	0
Refund of Prior Year Receipts	(114,265)	(116,548)	(116,548)	0
Total Other Financing Sources (Uses)	(390,762)	(376,400)	(376,053)	347
Net Change in Fund Balance	309,238	(526,827)	(513,071)	13,756
Fund Balance at Beginning of Year (as restated)	3,479,439	3,479,439	3,479,439	0
Prior Year Encumbrances Appropriated	284,265	284,265	284,265	0
Fund Balance at End of Year	\$4,072,942	\$3,236,877	\$3,250,633	\$13,756

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Fund Net Assets-
Governmental Activities-
Internal Service Fund
June 30, 2010

	<u>Internal Service</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$84,627
Liabilities:	
Accrued Wages and Benefits Payable	<u>12,681</u>
Net Assets:	
Unrestricted	<u><u>\$71,946</u></u>

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets-
Governmental Activities-
Internal Service Fund
For the Fiscal Year Ended June 30, 2010

	Internal Service
Operating Revenues:	
Charges for Services	\$43,680
Operating Expenses:	
Fringe Benefits	12,681
Purchased Services	117,206
Claims	64,924
<i>Total Operating Expenses</i>	194,811
<i>Operating Loss</i>	(151,131)
Non-Operating Revenues:	
Interest	21
Change in Net Assets	(151,110)
Net Assets at Beginning of Year - Restated (See Note 3)	223,056
Net Assets at End of Year	\$71,946

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Cash Flows-
Governmental Activities-
Internal Service Fund
For the Fiscal Year Ended June 30, 2010

	<u>Internal Service</u>
Increases (Decreases) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$43,680
Cash Payments to Suppliers for Goods and Services	(117,206)
Cash Payments for Claims	(91,349)
	(164,875)
Net Cash Used For Operating Activities	(164,875)
Cash Flows from Investing Activities:	
Interest	21
	21
Decrease in Cash and Cash Equivalents	(164,854)
Cash and Cash Equivalents at Beginning of Year, As Restated	249,481
	249,481
Cash and Cash Equivalents at End of Year	\$84,627
	\$84,627
Reconciliation of Operating Loss to Net Cash	
Used For Operating Activities:	
Operating Loss	(\$151,131)
Adjustments to Reconcile Operating Loss to	
Net Cash Used For Operating Activities:	
Increase in Accrued Wages and Benefits	12,681
Decrease in Claims Payable	(26,425)
	(13,744)
Total Adjustments	(13,744)
	(13,744)
Net Cash Used For Operating Activities	(\$164,875)
	(\$164,875)

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$14,098	\$93,569
Liabilities:		
Undistributed Monies	0	\$93,569
Net Assets:		
Held in Trust for Scholarships	\$14,098	

See Accompanying Notes to the Basic Financial Statements

Hillsboro City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2010

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and Contributions	\$2,500
Deductions:	
Payments in Accordance with Trust Agreements	1,750
Change in Net Assets	750
Net Assets at Beginning of Year (Restated - See Note 3)	13,348
Net Assets at End of Year	\$14,098

See Accompanying Notes to the Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Hillsboro City School District (the School District) operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The School District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by State and/or federal agencies. This Board controls the School District's instructional and support facilities staffed by 119 non-certified personnel and 201 certified teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the School District's ADM is 2,652. It currently operates one elementary building housing grades K-5, and one Middle School/Senior High building housing grades 6-12. The Administrative Office is located at 338 West Main Street, Hillsboro, Ohio.

Reporting Entity:

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

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

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

The School District is associated with Miami Valley Educational Computer Association and the Coalition of Rural and Appalachian Schools which are defined as jointly governed organizations. These organizations are presented in Note 19 of the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hillsboro City School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

The Statement of Net 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 are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

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. The funds of the School District fall within three categories: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 following are the School District's major governmental funds:

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Classroom Facilities Fund - The Classroom Facilities Fund is used to account for all intergovernmental monies, debt proceeds and interest received and expended in connection with the contracts entered into by the School District and the Ohio School Facilities Commission for the construction and renovation of classroom facilities.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Fund:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The School District's only proprietary fund is an internal service fund.

Internal Service Fund - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District. The Internal Service Fund is used to account for dental benefits provided to employees and incurred prior to September 2009.

Fiduciary Funds:

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are a private purpose trust fund and an agency fund. The private purpose trust fund accounts for college scholarship programs for students. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Measurement Focus

Government-wide Financial Statements:

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (e.g. revenues) and decreases (e.g. 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 activities.

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 and the financial statements of the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred 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. "Measurable" means the amount of the transaction can be determined and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, "available" means expected to be received within 60 days of fiscal year-end.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2010, but which were levied to finance fiscal year 2011 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 the governmental funds.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The School District also utilizes an escrow agent to hold retainage on construction contracts. These monies are presented as "Restricted Assets: Cash and Cash Equivalents with Escrow Agent" on the balance sheet.

During fiscal year 2010, the School District's investments were limited to Federal Home Loan Bank Notes, Federal Home Loan Bank Step Up Notes, Federal Home Loan Mortgage Corporation Medium Term Notes, Federal Home Loan Mortgage Corporation Medium Term Step Up Notes, and negotiable certificates of deposit.

Investments are reported at fair value which is based on quoted market prices. For investments in open-end mutual funds, the fair value is determined by the fund's current share price.

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 2010 amounted to \$160,914, which includes \$85,719 assigned from other School District funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of purchased and donated food held for resale and consumable supplies.

G. Restricted Assets

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

The School District utilizes an escrow agent to hold retainage on construction contracts. The balances in these accounts are presented on the financial statements as “Restricted Assets: Cash and Cash Equivalents with Escrow Agent”.

H. Capital Assets

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

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

I. Interfund Balances

On fund financial statements, outstanding interfund loans are reported as “Interfund Receivable” and “Interfund Payable.” These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. 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 activities for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

M. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, budget stabilization and library materials and services.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute for fiscal year 2010. The reserve for budget stabilization represents money required to be set aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for library materials and services represents restricted contributions to the Permanent Fund.

N. Internal Activity

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

O. 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.

P. Operating Revenues And Expenses

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

Q. Budgetary Process

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year, including all supplemental appropriations.

NOTE 3 - CORRECTION OF AN ERROR AND CHANGE IN ACCOUNTING PRINCIPLES

A. Correction of an Error

During the fiscal year, it was determined that income tax revenue and cash balances were understated while interfund payable and interfund receivable amounts were overstated. The School District also reclassified several funds. The School District also had a new valuation of all capital assets.

B. Change in Accounting Principles

The School District changed the method by which the accrual for compensated absences is calculated. In the past the School District used the vesting method. The School District has changed that method to the termination method.

The restatements had the following effect on net assets at June 30, 2009 as previously reported.

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>	<i>Internal Service Funds</i>	<i>Governmental Activities</i>
Fund Balance/Net Assets, June 30, 2009 as Reported	\$3,166,766	\$2,431,486	\$10,094,972	\$178,250	\$65,297,988
Change in Major Funds Reported	0	(1,120,918)	0	0	0
Adjustment for Income Tax	0	0	0	0	151,477
Adjustment of Equity in Pooled Cash and Cash Equivalents	0	0	0	44,806	44,806
Interfund Receivable	(147,183)	(7,586)	(154,769)	0	0
Interfund Payable	0	154,769	154,769	0	0
Fund Reclassification	192,659	(201,159)	(8,500)	0	(8,500)
Adjustment for Capital Assets	0	0	0	0	(4,200,612)
Adjustment for Compensated Absences	0	0	0	0	(91,829)
Fund Balance/Net Assets, June 30, 2009 Restated	<u>\$3,212,242</u>	<u>\$1,256,592</u>	<u>\$10,086,472</u>	<u>\$223,056</u>	<u>\$61,193,330</u>

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 3 - CORRECTION OF AN ERROR AND CHANGE IN ACCOUNTING PRINCIPLES (continued)

	<i>Private Purpose Trust Fund</i>
Net Assets, June 30, 2009	
as Reported	\$4,848
Fund Reclassification	8,500
Net Assets, June 30, 2009	
Restated	\$13,348

NOTE 4 - ACCOUNTABILITY

At June 30, 2010, the Food Service, Uniform School Supplies, Alternative School, Miscellaneous State Grants, IDEA-B and Title II-D funds had negative fund balances of \$91,838, \$2,600, \$2,577, \$300,000, \$25,042, and \$110, respectively. The deficits in these funds were created by the recognition of accrued liabilities. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$23,952
Adjustments:	
Revenue Accruals	(351,177)
Expenditure Accruals	(185,215)
Encumbrances	(112,157)
Advances	(5,442)
Transfers	116,548
Increase in Fair Market	
Value of Investments - 2010	420
Budget Basis	<u><u>(\$513,071)</u></u>

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 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;

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

Cash on Hand

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, 2010, the School District's bank balance of \$7,984,796 was either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Investments

As of June 30, 2010, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Moody's Rating</u>	<u>Percent of Total Investments</u>
Federal Home Loan Bank Notes	\$378,750	Less than two years	Aaa	37.62%
Federal Home Loan Bank Step Up Notes	50,000	Less than three years	No Rating Available	4.97%
Federal Home Loan Mortgage Corporation Medium Term Notes	29,986	Less than two years	Aaa	2.98%
Federal Home Loan Mortgage Corporation Medium Term Step Up Notes	19,991	Less than two years	Aaa	1.98%
Negotiable Certificates of Deposit	527,963	Less than three years	N/A	52.45%
Total Investments	<u>\$1,006,690</u>			

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

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.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 7 - PROPERTY TAXES (continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law 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 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in calendar year 2010 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.

Tangible personal property tax revenue received during calendar year 2010 (other than public utility property tax) represents the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Highland County. The Highland County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 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, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 7 - PROPERTY TAXES (continued)

The amount available as an advance at June 30, 2010 was \$567,762 in the General Fund, \$108,980 in the Debt Service Fund, and \$11,704 in the All Other Governmental Funds. The amount available as an advance at June 30, 2010 was \$292,629 in the General Fund, \$55,887 in the Debt Service Fund, and \$6,322 in the All Other Governmental Funds.

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

The School District's assessed values upon which fiscal year 2010 taxes were collected are:

	2009 Second - Half Collections		2010 First - Half Collections	
	Amount	Percentage	Amount	Percentage
Agricultural/Residential and Other Real Estate	\$270,801,170	95.80%	\$275,502,540	95.75%
Public Utility Personal	11,292,480	4.00%	11,944,580	4.15%
General Business Personal	553,950	0.20%	276,975	0.10%
Total Assessed Value	<u>\$282,647,600</u>	<u>100.00%</u>	<u>\$287,724,095</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$30.85		\$30.85	

NOTE 8 - INCOME TAX

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Restated Balance at 6/30/09	Additions	Deductions	Balance at 6/30/10
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$574,464	\$0	\$0	\$574,464
Construction in Progress	31,696,071	6,436,869	(38,132,940)	0
Total Capital Assets Not Being Depreciated	<u>32,270,535</u>	<u>6,436,869</u>	<u>(38,132,940)</u>	<u>574,464</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	29,546,379	38,132,940	0	67,679,319
Furniture, Fixtures and Equipment	2,872,007	230,433	0	3,102,440
Vehicles	2,036,152	64,736	0	2,100,888
Textbooks	996,123	0	0	996,123
Totals Capital Assets Being Depreciated	<u>35,450,661</u>	<u>38,428,109</u>	<u>0</u>	<u>73,878,770</u>
Less Accumulated Depreciation:				
Building and Improvements	(4,482,251)	(2,009,231)	0	(6,491,482)
Furniture, Fixtures and Equipment	(630,201)	(300,646)	0	(930,847)
Vehicles	(1,324,657)	(146,804)	0	(1,471,461)
Textbooks	(834,032)	(64,836)	0	(898,868)
Total Accumulated Depreciation	<u>(7,271,141)</u>	<u>(2,521,517) *</u>	<u>0</u>	<u>(9,792,658)</u>
Total Capital Assets Being Depreciated, Net	<u>28,179,520</u>	<u>35,906,592</u>	<u>0</u>	<u>64,086,112</u>
Governmental Activities Capital Assets, Net	<u>\$60,450,055</u>	<u>\$42,343,461</u>	<u>(\$38,132,940)</u>	<u>\$64,660,576</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,801,283
Special	69,390
Vocational	14,867
Support Services:	
Instructional Staff	7,019
Administration	93,233
Fiscal	1,315
Operation and Maintenance of Plant	254,619
Pupil Transportation	163,822
Operation of Non-Instructional Services - Food Service Operations	64,710
Extracurricular Activities	51,259
Total Depreciation Expense	<u>\$2,521,517</u>

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 10 - RECEIVABLES

Receivables at June 30, 2010, consisted of accounts (student fees), interest, intergovernmental grants, property taxes, income taxes and interfund. All receivables, except for delinquent property taxes, are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. Intergovernmental receivables consist of the following:

	<u>Amounts</u>
<u>Governmental Activities:</u>	
Medicaid Reimbursement	\$11,794
STRS Overfunding	43,415
SERS Overfunding	23,704
School Lunch Program	67,629
Alternative School	2,147
Idea - B	45,681
School Improvement Grant	60,417
Title I	195,668
Title II - A	49,060
Title VI - B	38,069
Total Intergovernmental Receivables	<u><u>\$537,584</u></u>

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

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

General Liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 for automobile liability. The School District also has umbrella liability coverage with a limit of \$5,000,000. There has been no significant change in coverage from the prior fiscal year. Settled claims have not exceeded coverage in any of the past three years.

In addition, the School District maintains replacement cost insurance on buildings and contents in the blanket amount of \$74,390,345. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The School District pays all appointed officials' bonds by statute.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 11 - RISK MANAGEMENT (continued)

B. Employee Medical Benefits

The School District was self insured for dental claims through August 2009. Dental insurance was offered to employees through a Self-Insurance Internal Service Fund. The information presented below represents the payout of the dental claims. There is no longer a claims liability at June 30, 2010.

Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2010	\$26,425	\$64,924	\$91,349	\$0
2009	32,081	245,223	250,879	26,425

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension and death benefit obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$407,644, \$492,180, and \$490,740, respectively; 44 percent has been contributed for fiscal year 2010, and 100 percent has been contributed for 2009 and 2008.

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio

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

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

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

Funding Policy – For the fiscal year ended June 30, 2010, 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. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,437,026, \$1,328,436, and \$1,473,876, respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$25,363 made by the School District and \$18,117 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, 2010, one member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 13 - POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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 401h. For 2010, 0.46 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 2010, this amount was \$35,800.

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, 2010, 2009, and 2008 were \$67,465, \$146,248, and \$116,375, respectively; 100 percent has been contributed fiscal years 2010, 2009 and 2008.

NOTE 13 – POST-EMPLOYMENT BENEFITS (continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$27,598, \$26,367, and \$23,836, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$107,545, \$94,888, and \$105,277, respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 14 - EMPLOYEE BENEFITS

Compensated Absences

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 15 - CAPITALIZED LEASES – LESSEE DISCLOSURE

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

The leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13 “ Accounting for Leases”, which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee.

Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments totaled \$20,000 during fiscal year 2010.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Asset:			
Buildings and Improvements	\$818,000	\$48,785	\$769,215

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

Fiscal Year Ending June 30,	Total Payments
2011	\$55,715
2012	54,741
2013	55,722
2014	55,634
2015	55,500
2016-2020	275,625
2021-2025	274,896
2026-2030	218,789
2031-2032	161,566
Total Minimum Lease Payments	1,208,188
Less Amount Representing Interest and Fees	(448,188)
Present Value of Minimum Lease Payments	\$760,000

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 16 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2010 were as follows:

	Restated Amount Outstanding 6/30/09	Additions	Deductions	Amount Outstanding 6/30/10	Amounts Due in One Year
<i>Governmental Activities:</i>					
General Obligation Bonds:					
School Improvements - 2001 3.25%	\$8,430,000	\$0	\$265,000	\$8,165,000	\$275,000
School Improvements - 2006 2.85%	3,020,000	0	100,000	2,920,000	100,000
Capital Leases	780,000	0	20,000	760,000	21,000
Compensated Absences	857,303	239,097	120,017	976,383	100,348
Total Governmental Activities					
Long-Term Liabilities	<u>\$13,087,303</u>	<u>\$239,097</u>	<u>\$505,017</u>	<u>\$12,821,383</u>	<u>\$496,348</u>

School Improvement Bonds 2001

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

The Bonds maturing on December 1, 2015 and December 1, 2028 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 in the respective principal amounts as follows:

Redemption Date (December 1)	Principal Amount Subject to Mandatory Redemption
2014	\$320,000
2024	530,000
2025	555,000
2026	585,000
2027	610,000

Unless previously redeemed, the remaining principal amounts of \$335,000 and \$640,000 will mature at stated maturity (December 1, 2015 and December 1, 2028, respectively).

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 16 - LONG-TERM OBLIGATIONS (continued)

The bonds maturing on or after December 1, 2012, excluding the term bond maturing December 1, 2015 and the serial bonds maturing December 1, 2016 through and including December 1, 2018 which are not callable, are subject to optional redemption, in whole or in part on any date at the option of the issuer on or after December 1, 2011, at par.

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

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

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

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

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

The School District's overall legal debt margin was \$15,062,287 with an unvoted debt margin of \$275,780 at June 30, 2010.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2010, are as follows:

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 16 - LONG-TERM OBLIGATIONS (continued)

School Improvement Bonds			
Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$375,000	\$523,227	\$898,227
2012	390,000	507,998	897,998
2013	405,000	492,169	897,169
2014	425,000	475,414	900,414
2015	440,000	456,999	896,999
2016-2020	2,555,000	1,918,004	4,473,004
2021-2025	3,265,000	1,193,544	4,458,544
2026-2029	3,230,000	323,257	3,553,257
Total	\$11,085,000	\$5,890,612	\$16,975,612

NOTE 17 - INTERFUND ACTIVITY

A. Interfund Receivables/Payables

As of June 30, 2010, receivables and payables that resulted from various interfund transactions were as follows:

	Receivable General Fund
Payable	All Other Governmental Funds
	\$380,969

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 17 - INTERFUND ACTIVITY (continued)

B. Transfers In/Out

During fiscal year ended June 30, 2010, the School District's interfund transfers were as follows:

Fund	Transfers In	Transfers Out
<i>Major Funds:</i>		
General Fund	\$ 200,013	\$ 571,284
Debt Service Fund	55,664	-
Classroom Facilities Fund	321,186	-
<i>Total Major Funds</i>	576,863	571,284
 <i>Nonmajor Funds:</i>		
Permanent Improvement Fund	-	230,630
Construction Fund	-	90,555
Custodial Building Improvement Fund	116,548	-
Miscellaneous State Grants	199,058	-
	315,606	321,185
 Total Transfers In/Out	 \$ 892,469	 \$ 892,469

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds that collect the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2009	\$0	\$0	\$75,952
Excess Qualifying Expenditures from Prior Fiscal Years	(1,728,492)	0	0
Current Fiscal Year Set-aside Requirement	437,678	437,678	0
Prior Year Offset from Bond Proceeds	0	(131,678)	0
Current Fiscal Year Qualifying Expenditures	(615,973)	(306,000)	0
Set-aside Balance Carried			
Forward to Future Fiscal Years	(1,906,787)	\$0	\$75,952
Set-aside Reserve Balance as of June 30, 2010	<u>\$0</u>	<u>\$0</u>	<u>\$75,952</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbooks set-aside amount to below zero. This extra amount may be used to reduce the set-aside requirement in future fiscal years. Amounts of offsets for capital acquisitions presented in the table were limited to those necessary to reduce the fiscal year-end balance to zero.

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

A. Miami Valley Educational Computer Association

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

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts, except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$68,668 for services provided during fiscal year 2010. Financial information can be obtained from Dean Reineke, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. Coalition of Rural and Appalachian Schools

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

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

NOTE 20 - 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

B. Litigation

The School District is not party to any legal proceeding.

NOTE 21 – CONTRACTUAL COMMITMENTS

The School District had the following contractual commitments at June 30, 2010.

Contractor	Contract Amount	Amount Expended	Outstanding Balance
NOR-COM, Inc.	\$1,423,017	\$1,377,251	\$45,766
STAN and Associates, Inc.	75,518	71,742	3,776
Feldcamp Enterprises, Inc.	5,168,241	5,097,353	70,888
Pezzo Construction	3,881,690	3,859,940	21,750
J&H Reinforcing & Structural Erectors	450,000	0	450,000

Hillsboro City School District
Highland County
Schedule of Receipts and Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
National School Lunch Program	3L60	10.555	\$ 462,682	\$ 36,416	\$ 462,682	\$ 36,416
School Breakfast Program	3L70	10.553	117,350	-	117,350	-
Total Nutrition Cluster			580,032	36,416	580,032	36,416
Total United States Department of Agriculture			580,032	36,416	580,032	36,416
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
<i>Title I, Part A Cluster:</i>						
Title I Grants to Local Educational Agencies	3M00	84.010	757,826	-	794,209	-
Title I Grants to Local Educational Agencies, ARRA	3DK0	84.389	173,097	-	172,749	-
Total Title I, Part A Cluster			930,923	-	966,958	-
<i>Special Education Cluster:</i>						
Special Education - Grants to States	3M20	84.027	453,828	-	469,799	-
Special Education -Preschool Grants	3C50	84.173	5,622	-	4,947	-
Special Education - Grants to States, ARRA	3DJ0	84.391	294,788	-	292,827	-
Special Education - Preschool Grants, ARRA	3DL0	84.392	19,817	-	19,817	-
Total Special Education Cluster			774,055	-	787,390	-
<i>Safe and Drug-Free Schools and Communities -</i>						
State Grants	3D10	84.186	31,338	-	15,534	-
Twenty-First Century Community Learning Centers	3Y20	84.287	12,800	-	6,160	-
State Grants for Innovative Programs	3M10	84.298	325	-	1,426	-
Education Technology State Grants	3S20	84.318	9,129	-	9,880	-
Rural Education	3Y80	84.358	25,064	-	34,940	-
Improving Teacher Quality State Grants	3Y60	84.367	148,021	-	147,207	-
School Improvement Grants	3AN0	84.377	60,635	-	74,508	-
Education for Homeless Children and Youth, ARRA	3DG0	84.387	100	-	100	-
State Fiscal Stabilization Fund (SFSF) Education State Grants, ARRA	GRF	84.394	772,595	-	629,134	-
Total United States Department of Education			2,764,985	-	2,673,237	-
Total Federal Financial Assistance			\$ 3,345,017	\$ 36,416	\$ 3,253,269	\$ 36,416

See accompanying notes to the Schedule of Receipts and Expenditures of Federal Awards.

Hillsboro City School District
Notes to the Schedule of Receipts and Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) is a summary of the activity of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DONATION

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE C – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS

Federal funds received from the National School Lunch and Breakfast Programs were commingled with state subsidy and local revenue from the sale of meals. It was assumed that federal dollars were expended first.



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by
*Government Auditing Standards***

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hillsboro City School District, Highland County, Ohio (the School District) as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 4, 2011, wherein we noted that the School District changed methods of accruing compensated absences. 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.

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

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001 and 2010-002 described in the accompanying schedule of findings to be material weaknesses.

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 that we must report under *Government Auditing Standards*.

The School District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

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



Balestra, Harr & Scherer, CPAs, Inc.

March 4, 2011



Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

Compliance

We have audited the compliance of Hillsboro City School District, Highland 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 Hillsboro City School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings 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.

We conducted our audit of compliance in accordance with 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*. Those 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 those 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 those requirements.

In our opinion, the Hillsboro City 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, 2010.

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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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.

Internal Control Over Compliance (Continued)

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.

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

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



Balestra, Harr & Scherer, CPAs, Inc.
March 4, 2011

HILLSBORO CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under section .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Cluster: Title I - CFDA #84.010 Title I (ARRA) – CFDA #84.389 Special Education Cluster: Title VI-B - CFDA #84.027 Preschool IDEA B – CFDA #84.173 Title VI-B (ARRA) - CFDA #84.391 Preschool IDEA B (ARRA) – CFDA #84.392 Fiscal Stabilization Fund (ARRA) - CFDA #84.394 Improving Teacher Quality – CFDA #84.367
<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

HILLSBORO CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

Finding 2010-001

Material Weakness – Segregation of Duties/Reconciliation of Reports

During the course of the audit, it was noted that the same individual was responsible for the final cash count of daily receipts in the lunchroom, deposit of funds, and reporting of the funds collected to the Treasurer and National School Lunch Program reporting system. This could allow fraud to go undetected.

The reconciliation of the point of sale system reports to the daily deposit slip was not performed by an individual independent of the preparer. Instances of fraud did occur during the audit period.

We recommend that the School District's management require separate parties to do the final cash count, deposit of funds, and reconciliation of point of sale system reports to the daily deposit slip.

School District's Response:

The School District has implemented additional control procedures in the lunchroom that will allow for the segregation of duties at the cash collection points as well as reconciliation of the reports by an independent party.

Finding 2010-002

Material Weakness – Financial Reporting

Sound financial reporting is the responsibility of the School District's Treasurer and Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The School District utilizes the Uniform School Accounting System and currently has monitoring controls over daily cash-basis transactions entered into the system. At year-end, the cash basis information from the accounting system is converted into the financial statements reported under accounting principles generally accepted in the United States of America. Accrual information is prepared by the School District and is submitted to Local Government Services to prepare the financial statements.

The School District had a valuation of fixed assets done during the year, and in doing so, noted that the capital assets balance on the financial statements for the prior year was overstated by \$4,200,612. Therefore, an adjustment to the prior period balance was required. An adjustment to the prior period balance was also required due to a change in major funds reported, errors in interfund receivable and payable balances, and a fund reclassification.

Lack or failure of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend that the School District develop policies and procedures to enhance its controls over capital asset management and valuation to help ensure the information is accurately reflected on the financial statements.

HILLSBORO CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(CONTINUED)

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

Finding 2010-002 (continued)

School District's Response:

The School District had a valuation to accurately determine the assets values, and intends to properly record the disposals and asset additions to ensure a more reliable financial measure of the capital assets in the future.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

*SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2009-001	Material financial statement misstatements that were not detected or corrected by the District.	No	Partially corrected. Material weakness was issued due to prior period adjustments and not current year adjustments.
2009-002	ORC 5705.36(A)(4) – Appropriations exceeding total available resources at year end.	Yes	
2009-003	ORC 5705.39 – Appropriations exceeding estimated resources at year end.	Yes	



Dave Yost • Auditor of State

HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 25, 2012