

Hillsboro City School District
Highland County, Ohio

Single Audit

July 1, 2007 through June 30, 2008
Fiscal Years Audited Under GAGAS: 2008



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Board of Education
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 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, 2007 through June 30, 2008. 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.

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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 16, 2009

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Hillsboro City School District
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 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 (the District), Highland County, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 that our audit provides a reasonable basis for our opinions.

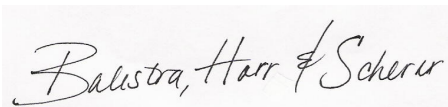
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows, thereof 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 February 6, 2009 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

The Management's Discussion and Analysis and the budgetary comparison schedule for the General fund are not required parts of the basic financial statements but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Federal Awards Expenditures 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 17, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
February 6, 2009

**Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
(Unaudited)**

The discussion and analysis of Hillsboro City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- Net assets of governmental activities increased \$4,485,714 which represents a 7.4% increase from 2007.
- General revenues accounted for \$24,122,287 in revenue or 80.6% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,789,827 or 19.4% of total revenues of \$29,912,114.
- The District had \$25,426,400 in expenses related to governmental activities; \$5,789,827 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$24,122,287 were also used to provide for these programs.

OVERVIEW OF THE 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 the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, “How did we do financially during 2008?” The Government-wide Financial Statements answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the District’s *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District’s programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Fund Financial Statements

The analysis of the District’s major funds are presented in the Fund Financial Statements. Fund financial statements provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s most significant funds.

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

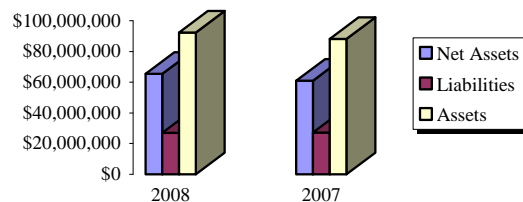
Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District’s own programs.

The District as a Whole

As stated previously, the Statement of Net Assets looks at the District as a whole. Table 1 provides a summary of the District's net assets for 2008 compared to 2007:

Table 1
Net Assets

	Governmental Activities	
	2008	2007
Assets:		
Current and Other Assets	\$46,185,812	\$56,433,394
Capital Assets	46,204,743	31,741,207
Total Assets	92,390,555	88,174,601
Liabilities:		
Other Liabilities	13,464,470	13,489,053
Long-Term Liabilities	13,449,073	13,694,250
Total Liabilities	26,913,543	27,183,303
Net Assets:		
Invested in Capital Assets, Net of Related Debt	33,532,323	19,457,048
Restricted	30,013,093	41,377,074
Unrestricted	1,931,596	157,176
Total Net Assets	\$65,477,012	\$60,991,298



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$65,477,012.

At year-end, capital assets represented 50% of total assets. Capital assets include land, construction in progress, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2008, was \$33,532,323. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$30,013,093 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets decreased from the prior year mainly because the District received state monies from the Ohio School Facilities Commission (OSFC), which reduced the receivable balance, and a decrease in taxes receivable owed to the District at year-end compared to 2007. Capital assets increased in 2008 as compared to 2007 mainly due to the continuing construction of various school improvement projects for the District. Total liabilities remained relatively consistent from fiscal year 2007 to 2008.

Table 2 shows the changes in net assets for fiscal years 2008 and 2007.

Table 2
Changes in Net Assets

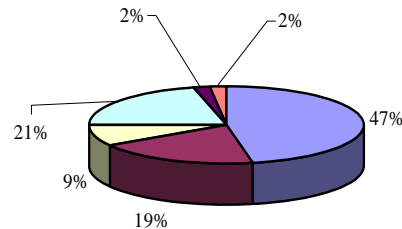
	Governmental Activities	
	2008	2007
Revenues:		
Program Revenues		
Charges for Services	\$1,457,216	\$1,376,701
Operating Grants, Contributions	4,316,519	3,389,648
Capital Grants and Contributions	16,092	24,760
General Revenues:		
Income Taxes	2,604,620	2,504,585
Property Taxes	6,301,580	6,400,251
Grants and Entitlements	14,017,327	11,290,690
Other	1,198,760	1,164,703
Total Revenues	<u>29,912,114</u>	<u>26,151,338</u>
Program Expenses:		
Instruction	13,995,705	13,103,518
Support Services:		
Pupil and Instructional Staff	2,596,297	2,575,464
School Administrative, General Administration, Fiscal and Business	3,010,077	2,849,565
Operations and Maintenance	1,972,223	1,660,963
Pupil Transportation	1,525,452	1,412,769
Central	122,188	143,722
Operation of Non-Instructional Services	1,125,679	1,110,474
Extracurricular Activities	471,541	436,226
Interest and Fiscal Charges	607,238	692,200
Total Program Expenses	<u>25,426,400</u>	<u>23,984,901</u>
Change in Net Assets	4,485,714	2,166,437
Net Assets Beginning of Year	<u>60,991,298</u>	<u>58,824,861</u>
Net Assets End of Year	<u><u>\$65,477,012</u></u>	<u><u>\$60,991,298</u></u>

The District revenues are mainly from two sources. Property taxes levied for general, special revenue and debt service purposes and grants and entitlements comprised 68% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 21% of revenue for governmental activities for the District in fiscal year 2008.

Revenue Sources	2008	Percent of Total
General Grants	\$14,017,327	47%
Program Revenues	5,789,827	19%
Income Taxes	2,604,620	9%
General Tax Revenues	6,301,580	21%
Investment Earnings	581,820	2%
Other Revenues	616,940	2%
	<u>\$29,912,114</u>	<u>100%</u>



Instruction comprises 55% of governmental program expenses. Support services expenses were 36% of governmental program expenses. All other expenses including interest expense were 9%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Grants and Entitlements increased mainly due to the increase in state monies received from the Ohio School Facilities Commission for school improvements and the reimbursement for the loss in personal property tax revenue (HB66) compared to 2007. Instruction increased from fiscal year 2007 mainly due to general inflationary cost increases.

Governmental Activities

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$13,995,705	\$13,103,518	(\$10,368,932)	(\$9,702,499)
Support Services:				
Pupil and Instructional Staff	2,596,297	2,575,464	(1,983,874)	(2,437,465)
School Administrative, General				
Administration, Fiscal and Business	3,010,077	2,849,565	(2,905,534)	(2,641,979)
Operations and Maintenance	1,972,223	1,660,963	(1,883,330)	(1,592,230)
Pupil Transportation	1,525,452	1,412,769	(1,425,988)	(1,336,439)
Central	122,188	143,722	(97,823)	(71,200)
Operation of Non-Instructional Services	1,125,679	1,110,474	(102,645)	(465,820)
Extracurricular Activities	471,541	436,226	(261,209)	(253,960)
Interest and Fiscal Charges	607,238	692,200	(607,238)	(692,200)
Total Expenses	<u>\$25,426,400</u>	<u>\$23,984,901</u>	<u>(\$19,636,573)</u>	<u>(\$19,193,792)</u>

The District's Funds

The District has two major governmental funds: the General Fund and Classroom Facilities Fund. Assets of the general fund comprised \$13,383,496 (29%) and the classroom facilities fund comprised \$28,408,375 (62%) of the total \$46,152,924 governmental funds assets.

General Fund: Fund balance at June 30, 2008 was \$2,431,774 an increase in fund balance of \$1,219,405 from 2007. The increase in fund balance was mainly due to an increase in taxes revenue.

Classroom Facilities Fund: Fund balance at June 30, 2008 was \$13,289,042, an increase in fund balance of \$2,903,273. The increase in fund balance was mainly due to the increase in intergovernmental revenue from the Ohio School Facilities Commission for school improvements.

General Fund Budgeting Highlights

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

The District amended its general fund budget once at the fiscal year end. The District revised the Budget to deal with unexpected changes in revenues and expenditures.

For the General Fund, original estimated revenue was \$21,422,289. The final estimated revenue was \$21,574,535. The difference was due to a slight increase in intergovernmental revenue.

The District's ending unobligated cash balance was \$447,250 below the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2008, the District had \$46,204,743 invested in land, construction in progress, buildings and improvements, and equipment. Table 4 shows fiscal 2008 balances compared to fiscal 2007:

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

	Governmental Activities	
	2008	2007
Land	\$1,513,130	\$1,522,499
Construction in Progress	40,418,744	25,828,356
Buildings and Improvements	2,792,967	2,893,353
Equipment	<u>1,479,902</u>	<u>1,496,999</u>
Total Net Capital Assets	<u>\$46,204,743</u>	<u>\$31,741,207</u>

The increase in capital assets is mainly due to the continuing construction of various school improvements projects for the District.

See Note 6 to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2008, the District had \$12,672,420 in bonds and capital leases payable, \$442,420 due within one year. Table 5 summarizes outstanding debt at year end.

Table 5
Outstanding Debt, at Year End

	Governmental	Governmental
	Activities	Activities
	2008	2007
Bonds Payable:		
School Improvement Bonds	\$11,800,000	\$12,140,000
Capital Leases	<u>872,420</u>	<u>757,159</u>
Total Outstanding Debt at Year End	<u>\$12,672,420</u>	<u>\$12,897,159</u>

See Note 7-8 to the basic financial statements for further details on the District's long-term obligations.

For the Future

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone, and telecommunications companies, and railroads. The tax on general business and railroad property began being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunication property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are being reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

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

Hillsboro City School District
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$20,505,901
Restricted Cash and Investments	340,441
Receivables:	
Taxes	11,074,777
Accounts	873
Intergovernmental	14,262,417
Inventory	1,403
Nondepreciable Capital Assets	41,931,874
Depreciable Capital Assets, Net	<u>4,272,869</u>
 Total Assets	 <u>92,390,555</u>
Liabilities:	
Accounts Payable	142,005
Accrued Wages and Benefits	2,397,104
Retainage Payable	264,489
Accrued Interest Payable	50,232
Unearned Revenue	9,795,657
Claims Payable	32,081
Contracts Payable	782,902
Long-Term Liabilities:	
Due Within One Year	576,504
Due In More Than One Year	<u>12,872,569</u>
 Total Liabilities	 <u>26,913,543</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	33,532,323
Restricted for:	
Special Revenue	1,095,044
Debt Service	914,142
Capital Projects	27,927,955
Set-Aside	75,952
Unrestricted	<u>1,931,596</u>
 Total Net Assets	 <u>\$65,477,012</u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$9,396,808	\$709,485	\$454,969	\$0	(\$8,232,354)
Special	2,041,188	77,806	1,937,690	0	(25,692)
Vocational	681,652	0	145,578	0	(536,074)
Other	1,876,057	4,630	296,615	0	(1,574,812)
Support Services:					
Pupil	860,261	1,117	112,117	0	(747,027)
Instructional Staff	1,736,036	11,807	487,382	0	(1,236,847)
General Administration	41,617	0	0	0	(41,617)
School Administration	2,323,639	775	102,233	0	(2,220,631)
Fiscal	643,383	0	1,535	0	(641,848)
Business	1,438	0	0	0	(1,438)
Operations and Maintenance	1,972,223	31,461	57,432	0	(1,883,330)
Pupil Transportation	1,525,452	414	82,958	16,092	(1,425,988)
Central	122,188	0	24,365	0	(97,823)
Operation of Non-Instructional Services	1,125,679	409,389	613,645	0	(102,645)
Extracurricular Activities	471,541	210,332	0	0	(261,209)
Interest and Fiscal Charges	607,238	0	0	0	(607,238)
Total Governmental Activities	\$25,426,400	\$1,457,216	\$4,316,519	\$16,092	(19,636,573)
General Revenues:					
Income Taxes					2,604,620
Property Taxes Levied for:					
General Purposes					5,213,200
Special Revenue Purposes					123,759
Debt Service Purposes					964,621
Grants and Entitlements not Restricted to Specific Programs					14,017,327
Unrestricted Contributions					2,564
Investment Earnings					581,820
Refunds and Reimbursements					86,944
Other Revenues					213,385
Gain on the Sale of Capital Assets					314,047
Total General Revenues					24,122,287
Change in Net Assets					4,485,714
Net Assets Beginning of Year					60,991,298
Net Assets End of Year					\$65,477,012

See accompanying notes to the basic financial statements.

Hillsboro City School District
Balance Sheet
Governmental Funds
June 30, 2008

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$3,338,275	\$14,071,944	\$2,906,426	\$20,316,645
Restricted Cash and Investments	75,952	264,489	0	340,441
Receivables:				
Taxes	9,820,073	0	1,254,704	11,074,777
Accounts	78	0	795	873
Intergovernmental	336	14,071,942	190,139	14,262,417
Interfund	148,782	0	7,586	156,368
Inventory	0	0	1,403	1,403
Total Assets	13,383,496	28,408,375	4,361,053	46,152,924
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	86,862	0	55,143	142,005
Accrued Wages and Benefits	2,090,304	0	306,800	2,397,104
Compensated Absences	90,229	0	0	90,229
Retainage Payable	0	264,489	0	264,489
Interfund Payable	0	0	156,368	156,368
Deferred Revenue	8,684,327	14,071,942	1,215,885	23,972,154
Contracts Payable	0	782,902	0	782,902
Total Liabilities	10,951,722	15,119,333	1,734,196	27,805,251
Fund Balances:				
Reserved for Encumbrances	513,577	17,102,032	90,435	17,706,044
Reserved for Inventory	0	0	1,403	1,403
Reserved for Property Tax Advances	183,026	0	39,119	222,145
Reserved for Set-Aside	75,952	0	0	75,952
Unreserved, Undesignated, Reported in:				
General Fund	1,659,219	0	0	1,659,219
Special Revenue Funds	0	0	1,029,770	1,029,770
Debt Service Funds	0	0	914,153	914,153
Capital Projects Funds	0	(3,812,990)	551,977	(3,261,013)
Total Fund Balances	2,431,774	13,289,042	2,626,857	18,347,673
Total Liabilities and Fund Balances	\$13,383,496	\$28,408,375	\$4,361,053	\$46,152,924

See accompanying notes to the basic financial statements.

Hillsboro City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2008

Total Governmental Fund Balance \$18,347,673

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. 46,204,743

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds.

Delinquent Property Taxes	104,255	
Intergovernmental	<u>14,072,242</u>	
		14,176,497

An internal service fund is used by management to charge
 back costs to individual funds. The assets and
 liabilities of the internal service fund are included in
 governmental activities in the statement of net assets. 157,175

In the statement of net assets interest payable is accrued when
 incurred, whereas in the governmental funds interest is
 reported as a liability only when it will require the use of
 current financial resources. (50,232)

Some liabilities reported in the statement of net assets do not
 require the use of current financial resources and therefore
 are not reported as liabilities in governmental funds.

Compensated Absences	<u>(686,424)</u>	
		(686,424)

Long-term liabilities, are not due and payable in the current
 period and therefore are not reported in the funds. (12,672,420)

Net Assets of Governmental Activities \$65,477,012

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$7,936,678	\$0	\$1,119,359	\$9,056,037
Tuition and Fees	738,797	0	0	738,797
Investment Earnings	197,647	332,827	46,346	576,820
Intergovernmental	12,544,398	17,320,628	3,296,157	33,161,183
Extracurricular Activities	0	0	289,941	289,941
Charges for Services	0	0	404,390	404,390
Other Revenues	162,301	8,931	160,752	331,984
Total Revenues	21,579,821	17,662,386	5,316,945	44,559,152
Expenditures:				
Current:				
Instruction:				
Regular	8,596,599	0	840,507	9,437,106
Special	784,442	0	1,260,050	2,044,492
Vocational	628,408	0	17,703	646,111
Other	1,868,752	0	7,305	1,876,057
Support Services:				
Pupil	734,843	0	131,423	866,266
Instructional Staff	1,122,746	0	602,415	1,725,161
General Administration	41,617	0	0	41,617
School Administration	2,111,602	0	184,792	2,296,394
Fiscal	587,189	0	40,535	627,724
Business	1,438	0	0	1,438
Operations and Maintenance	1,617,867	0	324,172	1,942,039
Pupil Transportation	1,475,752	0	50,436	1,526,188
Central	102,978	0	19,210	122,188
Operation of Non-Instructional Services	2,473	0	1,154,766	1,157,239
Extracurricular Activities	233,595	0	223,966	457,561
Capital Outlay	48,531	14,392,113	164,660	14,605,304
Debt Service:				
Principal Retirement	70,739	0	359,000	429,739
Interest and Fiscal Charges	5,464	0	603,178	608,642
Total Expenditures	20,035,035	14,392,113	5,984,118	40,411,266
Excess of Revenues Over (Under) Expenditures	1,544,786	3,270,273	(667,173)	4,147,886
Other Financing Sources (Uses):				
Issuance of Capital Leases	0	0	205,000	205,000
Proceeds from Sale of Assets	23,472	0	310,978	334,450
Transfers In	0	0	715,853	715,853
Transfers (Out)	(348,853)	(367,000)	0	(715,853)
Total Other Financing Sources (Uses)	(325,381)	(367,000)	1,231,831	539,450
Net Change in Fund Balance	1,219,405	2,903,273	564,658	4,687,336
Fund Balance Beginning of Year	1,212,369	10,385,769	2,062,199	13,660,337
Fund Balance End of Year	\$2,431,774	\$13,289,042	\$2,626,857	\$18,347,673

See accompanying notes to the basic financial statements.

Hillsboro City School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2008

Net Change in Fund Balance - Total Governmental Funds \$4,687,336

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

Governmental funds report capital asset additions as expenditures.
 However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	14,830,304	
Depreciation Expense	<u>(346,365)</u>	14,483,939

Governmental funds only report the disposal of assets to the
 extent proceeds are received from the sale. In the statement
 of activities, a gain or loss is reported for each disposal. The
 amount of the proceeds must be removed and the gain or loss
 on the disposal of capital assets must be recognized. This is the
 amount of the difference between the proceeds and the gain or loss. (20,403)

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

Delinquent Property Taxes	(149,838)	
Intergovernmental	<u>(14,811,247)</u>	(14,961,085)

Repayment of bond and capital lease principal is an expenditure
 in the governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 429,739

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. 1,404

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.

Compensated Absences	<u>16,667</u>	16,667
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The internal service fund used by management to charge back costs
 to individual funds is not reported in the district-wide statement of
 activities. Governmental fund expenditures and the related internal
 service fund revenues are eliminated. The net revenue (expense) of
 the internal service fund is allocated among the governmental activities. 53,117

Proceeds from debt issues are an other financing source in the funds,
 but a debt issue increases long-term liabilities in the statement
 of net assets. (205,000)

Change in Net Assets of Governmental Activities \$4,485,714

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Net Assets
Proprietary Fund
June 30, 2008

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$189,256</u>
Total Current Assets	<u>189,256</u>
Liabilities:	
Current Liabilities:	
Claims Payable	<u>32,081</u>
Total Current Liabilities	32,081
Net Assets:	
Unrestricted	<u>157,175</u>
Total Net Assets	<u>\$157,175</u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2008

	Governmental Activities- Internal Service Fund
Operating Revenues:	
Charges for Services	\$284,049
Total Operating Revenues	284,049
Operating Expenses:	
Contractual Services	230,932
Total Operating Expenses	230,932
Change in Net Assets	53,117
Net Assets Beginning of Year	104,058
Net Assets End of Year	\$157,175

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2008

	<u>Governmental Activities- Internal Service Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$284,049
Cash Payments to Suppliers	<u>(219,987)</u>
Net Cash Provided (Used) by Operating Activities	<u>64,062</u>
Net Increase (Decrease) in Cash and Cash Equivalents	64,062
Cash and Cash Equivalents Beginning of Year	<u>125,194</u>
Cash and Cash Equivalents End of Year	<u><u>189,256</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	53,117
Changes in Assets & Liabilities:	
Increase (Decrease) in Payables	<u>10,945</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$64,062</u></u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$5,348	\$112,835
Receivables:		
Accounts	0	270
Total Assets	<u>5,348</u>	<u>113,105</u>
Liabilities:		
Accounts Payable	0	625
Other Liabilities	0	112,480
Total Liabilities	<u>0</u>	<u>\$113,105</u>
Net Assets:		
Held in Trust	<u>5,348</u>	
Total Net Assets	<u>\$5,348</u>	

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, 2008

	Private Purpose Trust
Additions:	
Donations	<u>\$0</u>
Total Additions	<u>0</u>
Deductions:	
Scholarships	<u>500</u>
Total Deductions	<u>500</u>
Change in Net Assets	(500)
Net Assets Beginning of Year	<u>5,848</u>
Net Assets End of Year	<u><u>\$5,348</u></u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

1. DESCRIPTION OF THE DISTRICT

The Hillsboro City School District (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 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 District's instructional and support facilities staffed by 119 non-certificated personnel and 199 certificated teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the District's ADM is 2,671. It currently operates one elementary building housing grades K-5, one middle school building housing grade 6, and one Middle School/Senior High building housing grades 7-12. The Administrative Office is located at 338 West Main Street, Hillsboro, Ohio.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The District is associated with two organizations, which are defined as jointly governed organizations. These are the Hopewell Special Education Regional Resource Center and the Miami Valley Educational Computer Association. See Note 12 for more information on these organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its proprietary funds provided they do no conflict with or contradict GASB pronouncements. For proprietary funds, the District has elected not to follow subsequent private-sector guidance. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

The 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.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all 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 (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds (except agency funds) are reported using the economic resources measurement focus.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds focus 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 District's major governmental funds:

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

Classroom Facilities Fund – The classroom facilities fund is used to account for the receipts and expenditures related to the improvements of existing classroom facilities.

Proprietary Funds

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 District has no enterprise funds.

Internal Service Fund – This fund is used to account for the financing of services provided by one department to other departments of the District on a cost-reimbursement basis. The District’s only internal service fund accounts for a self insurance program for employee dental insurance benefits.

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District’s own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District’s only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has a student activity agency fund which accounts for assets and liabilities generated by student managed activities.

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a

reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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, 2008, but which were levied to finance fiscal year 2009 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.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

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.

EQUITY IN POOLED CASH AND INVESTMENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “Equity in Pooled Cash and Investments” on the financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

The District has invested funds in federal agency securities, money market funds, and the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2008. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2008.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$197,647, \$332,827 to the classroom facilities fund and \$51,346 to other governmental funds.

For purposes of the statement of cash flows, the Internal Service fund portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the fund without prior notice or penalty.

INVENTORY

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

CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two thousand dollars (\$2,000). The 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. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20 - 40 years
Equipment	3 - 15 years

RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization and amounts held in retainage for contractors.

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 District will compensate the employees for the benefits through paid time off or some other means. The 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 vested payment method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences are recognized when due. These related liabilities are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not Eligible	Per Board Policy	10-20 days
Termination Entitlement	Not Applicable	Per Board Policy	Per Board Policy
<u>Sick Leave</u>			
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	245 days	245 days	245 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Board Policy	Per Board Policy

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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District's \$30,013,093 in restricted net assets, none was restricted by enabling legislation.

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

FUND BALANCE RESERVES

The 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 property taxes, inventory, budget stabilization and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

INTERFUND ACTIVITY

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

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

As a general rule the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

ESTIMATES

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

3. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies – Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current five year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to, passbook accounts.

Interim Monies – 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.

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

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

- (1) United States Treasury Notes, Bills, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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

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

Cash on Hand

At fiscal year end, the District had \$2,600 in undeposited cash on hand which is included on the statement of net assets and governmental balance sheet of the 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 government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by federal depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2008, the District's bank balance of \$20,065,271 was either covered by federal depository insurance or collateralized by the financial institution's public entity deposit pool in the manner described below.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

As of June 30, 2008, the District had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Federal Home Loan Bank Discount Notes	\$498,816	0.06
Federal Home Loan Mortgage Corporation Discount Notes	373,539	0.04
Money Market Funds	145,654	0.00
Federal National Mortgage Association Discount Notes	199,536	0.09
STAROhio	<u>20,637</u>	0.15
Total Fair Value	<u><u>\$1,238,182</u></u>	
Portfolio Weighted Average Maturity		0.05

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The District limits their investments to securities in Federal Home Loan Bank Discount Notes, Federal Home Loan Mortgage Corporation Discount Notes, Money Market Funds, Federal National Mortgage Association Discount Notes, and STAROhio. Below are the credit ratings of the District's investments:

<u>Security</u>	<u>Rating Agency</u>	
	<u>Moody's</u>	<u>Standard & Poor's</u>
STAROhio	N/A	AAAm
Money Market Funds	Aaa	AAAm
Federal Home Loan Bank Discount Notes	Aaa	AAA
Federal Home Loan Mortgage Corporation Discount Notes	Aaa	AAA
Federal National Mortgage Association Discount Notes	Aaa	AAA

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The District's investment policy allows investments in Federal Agencies or Instrumentalities. Federal Home Loan Bank Discount Notes comprised 40% of the District's investments, Federal Home Loan Mortgage Corporation Discount Notes comprised 30% of the District's investments, Money Market Funds comprised 12% of the District's investments, Federal National Mortgage Association Discount Notes comprised 16% of the District's investments, and STAROhio comprised 2% of the District's investments.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

4. PROPERTY/INCOME TAXES

Property Tax

Real property taxes collected in 2008 were levied in April on the assessed values as of January 1, 2007, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). Each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

The tangible personal property tax will phase out over a four-year period starting with tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing and equipment first reportable on the 2006 and subsequent year returns is not subject to the personal property tax.

Real property taxes are payable annually or semi-annually. In 2008, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2008 and for which there is an enforceable legal claim. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2008. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2008, was \$183,026 for General Fund and \$39,119 for Other Governmental Funds, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2008 operations.

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 assessed values upon which the fiscal year 2008 taxes were collected are:

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$266,901,900
Public Utility Personal	10,751,440
Tangible Personal Property	<u>14,289,023</u>
Total	<u><u>\$291,942,363</u></u>

Income Tax

The 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 continuous levy. 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 District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

5. RECEIVABLES

Receivables at June 30, 2008, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$1,522,499	\$0	\$9,369	\$1,513,130
Construction in Progress	<u>25,828,356</u>	<u>14,590,388</u>	<u>0</u>	<u>40,418,744</u>
Total Capital Assets, not being depreciated	27,350,855	14,590,388	9,369	41,931,874
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	5,449,590	0	701,460	4,748,130
Equipment	<u>6,571,803</u>	<u>239,916</u>	<u>0</u>	<u>6,811,719</u>
<i>Total Capital Assets, being depreciated:</i>	<u>12,021,393</u>	<u>239,916</u>	<u>701,460</u>	<u>11,559,849</u>
Totals at Historical Cost	<u><u>39,372,248</u></u>	<u><u>14,830,304</u></u>	<u><u>710,829</u></u>	<u><u>53,491,723</u></u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,556,237)	(89,352)	690,426	(1,955,163)
Equipment	<u>(5,074,804)</u>	<u>(257,013)</u>	<u>0</u>	<u>(5,331,817)</u>
Total Accumulated Depreciation	<u><u>(7,631,041)</u></u>	<u><u>(346,365)</u></u>	<u><u>690,426</u></u>	<u><u>(7,286,980)</u></u>
Governmental Activities Capital Assets, Net	<u><u>\$31,741,207</u></u>	<u><u>\$14,483,939</u></u>	<u><u>\$20,403</u></u>	<u><u>\$46,204,743</u></u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$120,279
Special		4,245
Vocational		1,821
Support Services:		
Pupil		839
Instructional Staff		11,326
School Administration		5,482
Fiscal		2,663
Operations and Maintenance		18,066
Pupil Transportation		159,621
Operation of Non-Instructional Services		8,043
Extracurricular Activities		13,980
Total Depreciation Expense		<u><u>\$346,365</u></u>

7. LONG-TERM LIABILITIES

	<u>Maturity</u> <u>Dates</u>	<u>Beginning</u> <u>Principal</u> <u>Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal</u> <u>Outstanding</u>	<u>Due In One</u> <u>Year</u>
Governmental Activities:						
General Obligation Bonds:						
School Improvement - 2001 3.25%	12/01/28	\$8,935,000	\$0	\$250,000	\$8,685,000	\$255,000
School Improvement - 2006 2.85%	12/01/28	3,205,000	0	90,000	3,115,000	95,000
Capital Lease		<u>757,159</u>	<u>205,000</u>	<u>89,739</u>	<u>872,420</u>	<u>92,420</u>
Total Long Term Debt		<u>12,897,159</u>	<u>205,000</u>	<u>429,739</u>	<u>12,672,420</u>	<u>442,420</u>
Compensated Absences		<u>797,091</u>	<u>102,347</u>	<u>122,785</u>	<u>776,653</u>	<u>134,084</u>
Total Governmental Activities						
Long-Term Liabilities		<u><u>\$13,694,250</u></u>	<u><u>\$307,347</u></u>	<u><u>\$552,524</u></u>	<u><u>\$13,449,073</u></u>	<u><u>\$576,504</u></u>

General obligation bonds will be paid from the Debt Service fund. Capital leases will be paid from the General fund for the buses and the Debt Service fund for the bus garage and gymnasium. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2009	\$350,000	\$551,156	\$901,156
2010	365,000	537,697	902,697
2011	375,000	523,228	898,228
2012	390,000	507,999	897,999
2013	405,000	492,171	897,171
2014-2018	2,315,000	2,167,508	4,482,508
2019-2023	2,970,000	1,493,783	4,463,783
2024-2028	3,765,000	684,909	4,449,909
2029	865,000	21,024	886,024
Total Payments	<u>\$11,800,000</u>	<u>\$6,979,475</u>	<u>\$18,779,475</u>

8. CAPITAL LEASES – LESEE DISCLOSURE

The capital lease proceeds that were recorded in the General Fund relates to the construction of a Bus Garage in the School District. The School District is leasing the project from the Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. Columbus Regional Airport Authority assigned U.S. Bank as trustee. U.S. Bank deposited \$205,000 in the School District’s name for the construction of the project. Amounts will be paid to contractors by the School District as the work progresses. The School District will then submit invoices to the agent for reimbursement. The School District made an interest payment to U.S. Bank. The lease is renewable annually and expires in fiscal year 2032. The intention of the School District is to renew the lease annually.

The District began making principal payments in fiscal year 2008. The principal amount owed on the lease at year end is \$200,000.

The trustee entered into an Interest Rate Exchange Agreement with respect to the loan, locking in the rate at 4.17% plus an annual administrative fee.

The District also has a lease that relates to the construction of the Gymnasium in the School District. The School District is leasing the project from the Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. Columbus Regional Airport Authority assigned U.S. Bank as trustee. U.S. Bank deposited \$613,000 in the School District’s name for the construction of the project. Amounts will be paid to contractors by the School District as the work progresses. The School District will then submit invoices to the agent for reimbursement. The School District made an interest payment to U.S. Bank. The lease is renewable annually and expires in fiscal year 2032. The intention of the School District is to renew the lease annually.

The District began making principal payments in fiscal year 2008. The principal amount owed on the lease at year end is \$599,000.

The trustee entered into an Interest Rate Exchange Agreement with respect to the loan, locking in the rate at 4.17% plus an annual administrative fee.

The District also has a capital lease for buses.

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 leasee. Capital lease payments for the buses will be made from the General fund. Capital lease payments for the bus garage and gymnasium will be paid from the Debt Service fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Long-Term Debt</u>
2009	\$131,771
2010	55,665
2011	55,716
2012	54,743
2013	56,723
2014-2018	277,248
2019-2023	274,645
2024-2028	267,933
2029-2032	217,234
Total Minimum Lease Payments	1,391,678
Less: Amount Representing Interest	(498,410)
Less: Additional Program Cost Component	(20,848)
Present Value of Minimum Lease Payments	<u>\$872,420</u>

Capital assets acquired under capital leases in accordance with Statement of Financial Accounting Standards No. 13 are as follows:

Buildings and Improvements	\$818,000
Equipment	381,014

9. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Plan Description

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Forms and Publications.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's contributions to SERS for the years ended June 30, 2008, 2007, and 2006 were \$490,740, \$502,452, and \$473,892, respectively; 53% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

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 system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited members accounts as employers submit their payroll information to STRS Ohio, generally biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2008, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2008, 2007, and 2006 were \$1,473,876, \$1,497,792, and \$1,334,998, respectively; 86% has been contributed for fiscal year 2008 and 100% for fiscal years 2007 and 2006.

10. POST EMPLOYMENT BENEFITS

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2007 (the latest information available) was \$93.50; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2007 (the latest information available), the actuarially required allocation was .68%. District contributions for the year ended June 30, 2008 were \$23,836, which equaled the required contributions for the year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2007 (the latest information available), the health care allocation was 3.32%. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation, was 11.50% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The District contributions for the years ended June 30, 2008, 2007, and 2006 were \$116,375, \$119,153, and \$115,765, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2007 (the latest information available), the minimum compensation level was established at \$35,800.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Forms and Publications.

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

Plan Description

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multi-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current programs includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care cost in the form of monthly premiums.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2008, 2007 and 2006. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2008, 2007, and 2006 were \$105,277, \$106,985, and \$95,356, respectively.

11. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2008.

LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

12. JOINTLY GOVERNED ORGANIZATIONS

The **Hopewell Special Education Regional Resource Center** (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school district to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of Superintendents from the seventeen school districts, plus county board of education, mental retardation and developmental disabilities, and joint vocational school superintendents, as well as three parents of handicapped children in the region. The Clinton County Board of Education acts as fiscal agent. Hopewell receives funding from contracts with each of the member school districts and Federal and State grants.

The **Miami Valley Educational Computer Association** (MVECA) is a jointly governed organization consisting of 24 school districts. The jointly governed 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. Each of the governments of these schools supports MVECA and shares in a percentage equity based on the resources provided. MVECA is governed by a board of directors consisting of superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. To obtain financial information write to: Mr. Steven Sutcliffe, Treasurer, Greene County Career Center, 2960 West Enon Road, Xenia, Ohio 45385.

13. RISK MANAGEMENT

The 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 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 District also has umbrella liability coverage with a limit of \$5,000,000. There has been no significant change in coverage from the prior year. Settled claims have not exceeded coverage in any of the past 3 years.

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$46,946,500. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The District pays all appointed officials' bonds by statute.

Dental insurance is offered to employees through the Internal Service Fund. The claims liability of \$32,081 reported in the Internal Service Fund at fiscal year end is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the fiscal year follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
FY 2008	\$21,136	\$230,932	\$219,987	\$32,081
FY 2007	20,547	249,142	248,553	21,136
FY 2006	69,534	199,138	248,125	20,547

14. ACCOUNTABILITY AND COMPLIANCE

Accountability

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
Special Revenue Funds:	
Alternative School	\$667
Poverty Based Assistance	8,790
Title VI-B	8,117
Food Service	194,681
Customer Service	2,599

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Compliance

Ohio Revised Code section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The District had expenditures in excess of appropriations at fiscal year end in the General Fund, the Classroom Facilities Fund, and the Permanent Improvement fund.

15. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2008, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	Textbooks	Capital Acquisition	Budget Stablization
Set-aside Reserve Balance as of June 30, 2007	(\$525,686)	\$0	\$75,952
Current Year Set-aside Requirement	429,598	429,598	0
Qualified Disbursements	(914,475)	(269,713)	0
Current Year Offsets	0	(159,885)	0
Set-aside Reserve Balance as of June 30, 2008	<u>(\$1,010,563)</u>	<u>\$0</u>	<u>\$0</u>
Restricted Cash as of June 30, 2008	<u>\$0</u>	<u>\$0</u>	<u>\$75,952</u>
Carry Forward to FY 2009	<u>(\$1,010,563)</u>	<u>\$0</u>	<u>\$0</u>

Qualifying expenditures, including carry forward for textbook activity during the year were \$1,440,161, which exceeds the required set-aside reserve. Although the District had qualifying disbursements, during the fiscal year that reduced the capital maintenance set-aside amount below zero, only the amount for the textbook set-aside may be used to reduce the set-aside requirement of future years.

16. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2008, consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$148,782	\$0	\$0	\$348,853
Classroom Facilities Fund	0	0	0	367,000
Other Governmental Funds	7,586	156,368	715,853	0
Total All Funds	\$156,368	\$156,368	\$715,853	\$715,853

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

17. CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2008, the District has implemented GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” and GASB Statement No. 50 “Pension Disclosures.”

Statement No. 45 addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. This also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. Collectively, these benefits are commonly referred to as “other postemployment benefits (OPEB).”

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements.

There was no effect on fund balance/net assets as a result of the implementation of these new standards.

REQUIRED SUPPLEMENTARY INFORMATION

Hillsboro City School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2008

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$7,906,796	\$7,962,989	\$7,981,275	\$18,286
Tuition and Fees	731,898	737,099	738,792	1,693
Investment Earnings	195,803	197,194	197,647	453
Intergovernmental	12,427,006	12,515,324	12,544,064	28,740
Other Revenues	160,786	161,929	162,301	372
Total Revenues	21,422,289	21,574,535	21,624,079	49,544
Expenditures:				
Current:				
Instruction:				
Regular	8,853,296	8,421,804	8,627,427	(205,623)
Special	900,673	856,776	877,695	(20,919)
Vocational	623,599	593,206	607,689	(14,483)
Other	1,843,061	1,753,234	1,796,040	(42,806)
Support Services:				
Pupil	759,168	722,168	739,800	(17,632)
Instructional Staff	1,137,175	1,081,751	1,108,163	(26,412)
General Administration	51,516	49,006	50,202	(1,196)
School Administration	2,194,649	2,087,686	2,138,658	(50,972)
Fiscal	602,592	573,222	587,218	(13,996)
Business	1,476	1,404	1,438	(34)
Operations and Maintenance	1,729,592	1,645,295	1,685,466	(40,171)
Pupil Transportation	1,570,041	1,493,520	1,529,985	(36,465)
Central	104,233	99,153	101,574	(2,421)
Operation of Non-Instructional Services	3,564	3,390	3,473	(83)
Extracurricular Activities	239,711	228,028	233,595	(5,567)
Capital Outlay	340,136	323,558	331,458	(7,900)
Debt Service:				
Principal Retirement	70,739	70,739	70,739	0
Interest and Fiscal Charges	7,459	3,648	5,464	(1,816)
Total Expenditures	21,032,680	20,007,588	20,496,084	(488,496)
Excess of Revenues Over (Under) Expenditures	389,609	1,566,947	1,127,995	(438,952)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	23,253	23,418	23,472	54
Advances (Out)	(1,641)	(1,561)	(1,599)	(38)
Transfers (Out)	(357,986)	(340,539)	(348,853)	(8,314)
Total Other Financing Sources (Uses)	(336,374)	(318,682)	(326,980)	(8,298)
Net Change in Fund Balance	53,235	1,248,265	801,015	(447,250)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	2,012,275	2,012,275	2,012,275	0
Fund Balance End of Year	\$2,065,510	\$3,260,540	\$2,813,290	(\$447,250)

See accompanying notes to the required supplementary information.

Hillsboro City School District
Notes to the Required Supplementary Information
For The Year Ended June 30, 2008

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount 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 the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2008.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

While the 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 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$1,219,405
Net Adjustment for Revenue Accruals	249,258
Net Adjustment for Expenditure Accruals	139,390
Issuance of Debt	(205,000)
Advances Out	(1,599)
Encumbrances	<u>(600,439)</u>
Budget Basis	<u>\$801,015</u>

Hillsboro City School District
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2008

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>						
School Breakfast Program	O5PU	10.553	\$ 91,849	\$ -	\$ 91,849	\$ -
National School Lunch Program	LLP4	10.555	385,986	-	385,986	-
<i>Total Nutrition Cluster</i>			<u>477,835</u>	<u>-</u>	<u>477,835</u>	<u>-</u>
Food Donation	NA	10.550	-	44,205	-	44,205
Total United States Department of Agriculture			477,835	44,205	477,835	44,205
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education - Grants to States	6BSF	84.027	632,758	-	844,164	-
Special Education - Preschool Grants	PGS1	84.173	6,601	-	7,577	-
<i>Total Special Education Cluster</i>			<u>639,359</u>	<u>-</u>	<u>851,741</u>	<u>-</u>
Title I Grants to Local Educational Agencies	C1S1	84.010	915,846	-	920,684	-
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	13,702	-	7,769	-
Twenty-First Century Community Learning Centers	T1S1	84.287	225,000	-	226,507	-
State Grants for Innovative Programs	C2S1	84.298	13,165	-	15,420	-
Education Technology State Grants	TJS1	84.318	7,758	-	4,652	-
Improving Teacher Quality State Grants	TRS1	84.367	149,652	-	176,978	-
Hurricane Education Recovery	HR01	84.938	76,658	-	63,392	-
Total United States Department of Education			<u>2,041,140</u>	<u>-</u>	<u>2,267,143</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 2,518,975</u>	<u>\$ 44,205</u>	<u>\$ 2,744,978</u>	<u>\$ 44,205</u>

NA - Not Available

See accompanying notes to the schedule of federal awards expenditures

Hillsboro City School District
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2008

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the 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 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.

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 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 (the School District) as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 6, 2009 in which we indicate that the District implemented GASB Statements No. 50 and No. 45. 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 to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the School District's management in a separate letter dated February 6, 2009.

Members of the Board

Hillsboro City School District

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Page 2

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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

We also noted certain noncompliance or other matters that we reported to the School District's management in a separate letter dated February 6, 2009.

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

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



Balestra, Harr & Scherer, CPAs, Inc.
February 6, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Hillsboro City School District
338 West Main St.
Hillsboro, Ohio 45133

Compliance

We have audited the compliance of Hillsboro City School District, Clermont 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 are applicable to each of its major federal programs for the year ended June 30, 2008. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. 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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 types of 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 of the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

Board of Education

Hillsboro City School District

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Page 2

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of the 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 that might be 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 the audit committee, Board of Education, management, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
February 6, 2009

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2008*

1. SUMMARY OF AUDITOR' S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any significant internal control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any material weakness reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any significant internal control deficiencies reported for major federal programs?	No
(d)(1)(iv)	Were there any material weakness reported for major federal programs?	No
(d)(1)(v)	Type of Major Program' s Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA# 84.027 & 84.173; Title I Grants to Local Education Agencies: CFDA# 84.010; Nutrition Cluster: CFDA# 10.555 & 10.553
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008*

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

Finding Number 2008-001

Ohio Revised Code section 5705.41(B) states that not subdivision or taxing unit is to expend money unless it has been appropriated.

The School District had expenditures in excess of appropriations at year end in the General, Classroom Facilities Fund and the Permanent Improvement Fund.

The School District should review budgetary expenditures compared to appropriations and request an amended appropriations measure when deemed necessary.

Client Response: No money was actually expended in excess of the approved appropriation for FY 2008. (Resolution 2008-106-June 18, 2008) Then the “temporary appropriations” for FY 2009 was approved in the same board meeting on June 18, 2008 (Resolution 2008-108) literally within minutes of each other. Therefore all of the encumbrances were appropriated by the board before 6-30-2008.

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, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-001	Material Weakness – Material misstatements	Yes	N/A
2007-002	Significant Deficiency – Student Activities sales potential forms.	Yes	N/A



Mary Taylor, CPA
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
MAY 7, 2009