

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008

MARJORIE TRAVIS, TREASURER



Mary Taylor, CPA

Auditor of State

Board of Education
Hillsdale Local School District
485 TR 1902
Jeromesville, Ohio 44840

We have reviewed the *Independent Auditor's Report* of the Hillsdale Local School District, Ashland County, prepared by Julian & Grube, 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 Hillsdale Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 20, 2009

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Education
Hillsdale Local School District
485 Twp. Rd. 1902
Jeromesville, OH 44840-9754

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Hillsdale Local School District, Ashland County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise Hillsdale Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hillsdale Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the 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, its major fund, and the aggregate remaining fund information of Hillsdale Local School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal 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 January 9, 2009, on our consideration of Hillsdale Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Independent Auditor's Report
Hillsdale Local School District
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillsdale Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The schedule of receipts and expenditures of federal awards 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.



Julian & Grube, Inc.
January 9, 2009

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The management's discussion and analysis of the Hillsdale Local School District's (the "District") 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets of governmental activities increased \$365,312 which represents a 13.11% increase from 2007.
- General revenues accounted for \$8,476,422 in revenue or 83.59% of all revenues. Program specific revenues, in the form of charges for services and sales, grants and contributions accounted for \$1,663,452 or 16.41% of total revenues of \$10,139,874.
- The District had \$9,774,562 in expenses related to governmental activities; only \$1,663,452 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,476,422 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$8,904,022 in revenues and other financing sources and \$9,006,142 in expenditures and other financing uses. During fiscal year 2008, the general fund's fund balance decreased \$102,120 from \$875,054 to \$772,934.

Using the Basic Financial Statements (BFS)

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. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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 question, "How did we do financially during 2008?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports 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. The District's major governmental fund is the general fund.

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 financial 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for employee benefits self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-50 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. Net assets at June 30, 2007 were restated as described in Note 3.C. to the basic financial statements. The table below provides a summary of the District's net assets for 2008 and 2007.

| | Net Assets | |
|--|------------------------------------|--|
| | Governmental Activities 2008 | Restated Governmental Activities 2007 |
| <u>Assets</u> | | |
| Current and other assets | \$ 7,419,463 | \$ 6,200,205 |
| Capital assets, net | 1,767,365 | 1,722,235 |
| Total assets | 9,186,828 | 7,922,440 |
| <u>Liabilities</u> | | |
| Current liabilities | 4,935,691 | 4,027,600 |
| Long-term liabilities | 1,098,605 | 1,107,620 |
| Total liabilities | 6,034,296 | 5,135,220 |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 1,587,015 | 1,521,885 |
| Restricted | 134,117 | 167,259 |
| Unrestricted (deficit) | 1,431,400 | 1,098,076 |
| Total net assets | \$ 3,152,532 | \$ 2,787,220 |

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 \$3,152,532.

At year-end, capital assets represented 19.24% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2008, were \$1,587,015. 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.

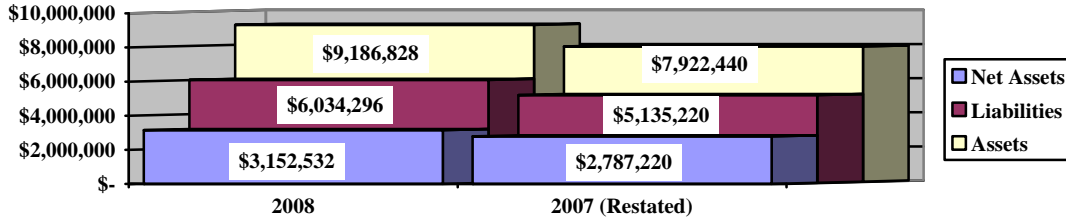
A portion of the District's net assets, \$134,117, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,431,400 may be used to meet the District's ongoing obligations to the students and creditors.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below reports the District's governmental activities assets, liabilities and net assets at June 30, 2008 and 2007.

Governmental Activities



The table below shows the change in net assets for fiscal year 2008 and 2007.

| | <u>Change in Net Assets</u> | |
|------------------------------------|---|---|
| | <u>Governmental Activities 2008</u> | <u>Governmental Activities 2007</u> |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 725,254 | \$ 834,891 |
| Operating grants and contributions | 928,627 | 852,317 |
| Capital grants and contributions | 9,571 | 23,351 |
| General revenues: | | |
| Property taxes | 3,913,598 | 4,832,882 |
| Grants and entitlements | 4,342,278 | 4,288,633 |
| Investment earnings | 124,696 | 100,221 |
| Other | 95,850 | 47,953 |
| Total revenues | <u>10,139,874</u> | <u>10,980,248</u> |

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | Change in Net Assets | |
|--|------------------------------------|------------------------------------|
| | Governmental Activities 2008 | Governmental Activities 2007 |
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ 4,328,520 | \$ 4,168,945 |
| Special | 758,647 | 671,896 |
| Vocational | 355,749 | 336,993 |
| Other | 235,074 | 280,501 |
| Support services: | | |
| Pupil | 545,981 | 450,071 |
| Instructional staff | 329,397 | 298,232 |
| Board of education | 45,296 | 27,683 |
| Administration | 768,606 | 801,107 |
| Fiscal | 335,273 | 317,710 |
| Operations and maintenance | 611,968 | 638,986 |
| Pupil transportation | 710,027 | 720,251 |
| Central | 9,000 | 9,410 |
| Operation of non-instructional services: | | |
| Food service operations | 344,378 | 343,763 |
| Other non-instructional services | 2,212 | 982 |
| Extracurricular activities | 384,679 | 391,433 |
| Interest and fiscal charges | 9,755 | 10,720 |
| Total expenses | 9,774,562 | 9,468,683 |
| Change in net assets | 365,312 | 1,511,565 |
| Net assets at beginning of year (restated) | 2,787,220 | 1,275,655 |
| Net assets at end of year | \$ 3,152,532 | \$ 2,787,220 |

Governmental Activities

Net assets of the District's governmental activities increased \$365,312. Total governmental expenses of \$9,774,562 were offset by program revenues of \$1,663,452 and general revenues of \$8,476,422. Program revenues supported 17.02% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, grants and entitlements. These revenue sources represent 81.42% of total governmental revenue. Real estate property is reappraised every six years.

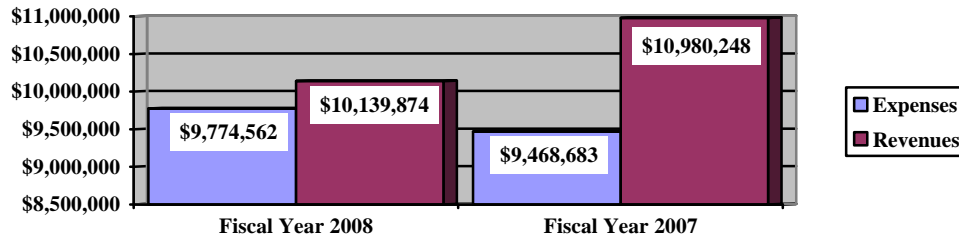
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,677,990 or 58.09% of total governmental expenses for fiscal year 2008.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2008 and 2007.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 grants and entitlements.

Governmental Activities

| | Total Cost of Services <u>2008</u> | Net Cost of Services <u>2008</u> | Total Cost of Services <u>2007</u> | Net Cost of Services <u>2007</u> |
|--|--|--|--|--|
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | \$ 4,328,520 | \$ 3,995,087 | \$ 4,168,945 | \$ 3,761,045 |
| Special | 758,647 | 337,310 | 671,896 | 345,680 |
| Vocational | 355,749 | 296,150 | 336,993 | 271,770 |
| Other | 235,074 | 235,074 | 280,501 | 280,501 |
| Support services: | | | | |
| Pupil | 545,981 | 391,191 | 450,071 | 333,299 |
| Instructional staff | 329,397 | 285,101 | 298,232 | 252,412 |
| Board of education | 45,296 | 45,296 | 27,683 | 27,683 |
| Administration | 768,606 | 701,809 | 801,107 | 685,974 |
| Fiscal | 335,273 | 335,123 | 317,710 | 317,560 |
| Operations and maintenance | 611,968 | 611,022 | 638,986 | 636,654 |
| Pupil transportation | 710,027 | 680,027 | 720,251 | 673,722 |
| Central | 9,000 | - | 9,410 | 54 |
| Food service operations | 344,378 | (42,087) | 343,763 | (42,594) |
| Operations of non-instructional services | 2,212 | 2,212 | 982 | 982 |
| Extracurricular activities | 384,679 | 228,040 | 391,433 | 202,662 |
| Interest and fiscal charges | <u>9,755</u> | <u>9,755</u> | <u>10,720</u> | <u>10,720</u> |
| Total expenses | <u>\$ 9,774,562</u> | <u>\$ 8,111,110</u> | <u>\$ 9,468,683</u> | <u>\$ 7,758,124</u> |

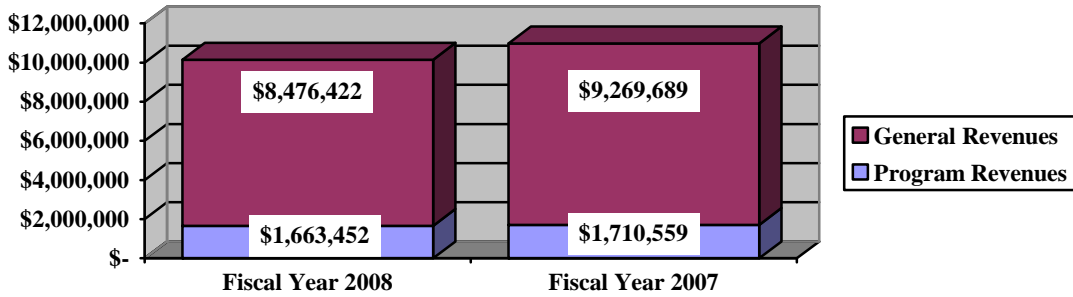
The dependence upon tax and other general revenues for governmental activities is apparent, 85.66% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.98%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are by far the primary support for District's students.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below presents the District's governmental activities revenue for fiscal year 2008 and 2007.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$869,558, which is lower than last year's total of \$991,114. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

| | Fund Balance <u>June 30, 2008</u> | Fund Balance <u>June 30, 2007</u> | <u>(Decrease)</u> |
|--------------------|--------------------------------------|--------------------------------------|---------------------|
| General | \$ 772,934 | \$ 875,054 | \$ (102,120) |
| Other governmental | <u>96,624</u> | <u>116,060</u> | <u>(19,436)</u> |
| Total | <u>\$ 869,558</u> | <u>\$ 991,114</u> | <u>\$ (121,556)</u> |

General Fund

The District's general fund's fund balance decreased by \$102,120. This decrease is primarily the result of decreased property tax revenues coupled with a slight increase in expenditures.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | <u>2008</u> <u>Amount</u> | <u>2007</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|---|------------------------------|------------------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Taxes | \$ 3,823,573 | \$ 4,581,463 | (16.54) % |
| Tuition | 265,129 | 290,982 | (8.88) % |
| Earnings on investments | 66,362 | 62,774 | 5.72 % |
| Intergovernmental | 4,679,700 | 4,597,140 | 1.80 % |
| Other revenues | <u>68,956</u> | <u>65,247</u> | 5.68 % |
| Total | <u>\$ 8,903,720</u> | <u>\$ 9,597,606</u> | (7.23) % |
| <u>Expenditures</u> | | | |
| Instruction | \$ 5,534,830 | \$ 5,569,373 | (0.62) % |
| Support services | 3,209,140 | 3,097,969 | 3.59 % |
| Operation of non-instructional services | 2,212 | 982 | 125.25 % |
| Extracurricular activities | 220,205 | 198,855 | 10.74 % |
| Facilities acquisition and construction | 10,000 | - | 100.00 % |
| Debt service | <u>-</u> | <u>177</u> | (100.00) % |
| Total | <u>\$ 8,976,387</u> | <u>\$ 8,867,356</u> | 1.23 % |

Tax revenues decreased 16.54%. This decrease is the result of a smaller amount of taxes being collected by the County Auditors and being available as an advance at fiscal year end. These amounts available for advance at year end are recorded as revenue. The amounts available as an advance at year-end can vary depending upon when tax bills are sent out by the County Auditor (see Note 6). The amounts that were available for advance in the general fund at June 30, 2008 and 2007 were \$800,896 and \$1,125,092, respectively. Earnings on investments increased 5.72% due to greater interest rates earned on investments. Other revenue increased 5.68% mainly due to an increase in classroom materials and fees and increased donations. All other revenues and expenditures were comparable to the prior year.

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.

During the course of fiscal year 2008, the District amended its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$8,628,751 and \$9,286,626 respectively. Actual revenues and other financing sources for fiscal year 2008 was \$9,288,424. This represents a \$1,798 increase over final budgeted revenues.

General fund original and final appropriations (appropriated expenditures and other financing uses) were \$9,378,776 and \$9,628,776 respectively. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$9,142,705, which was \$486,071 less than the final budget appropriations.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Capital Assets and Debt Administration

Capital Assets

Capital assets were restated at June 30, 2008 (see Note 8 to the basic financial statements for detail). At the end of fiscal year 2008, the District had \$1,767,365 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and textbooks. The entire amount is reported in governmental activities. The following table shows fiscal year 2008 balances compared to 2007:

**Capital Assets at June 30
(Net of Depreciation)**

| | <u>Governmental Activities</u> | |
|---------------------------|--------------------------------|----------------------------|
| | <u>2008</u> | <u>(Restated) 2007</u> |
| Land | \$ 51,970 | \$ 51,970 |
| Land improvements | 148,085 | 151,572 |
| Building and improvements | 876,800 | 888,142 |
| Furniture and equipment | 291,026 | 317,716 |
| Vehicles | 320,909 | 211,646 |
| Infrastructure | 1,085 | 1,085 |
| Textbooks | <u>77,490</u> | <u>100,104</u> |
| Total | <u>\$ 1,767,365</u> | <u>\$ 1,722,235</u> |

Total additions to capital assets for 2008 were \$201,388. Disposals to capital assets for 2008 were \$5,565 (net of accumulated depreciation). Depreciation expense for fiscal year 2008 was \$150,693. Overall, capital assets of the District increased \$45,130. See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2008, the District had \$180,350 in energy conservation notes outstanding. Of this total, \$22,500 is due within one year and \$157,850 is due within greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

| | <u>Governmental Activities 2008</u> | <u>Governmental Activities 2007</u> |
|---------------------------|---|---|
| Energy conservation notes | <u>\$ 180,350</u> | <u>\$ 200,350</u> |
| Total | <u>\$ 180,350</u> | <u>\$ 200,350</u> |

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Current Financial Related Activities

The District continues to receive strong support from the residents of the District. As the preceding information shows, the District relies heavily on its local property taxpayers. The last new operating levy passed by the residents of the district was in August, 1999, with the promise that the revenue generated by a levy would provide sufficient funding for four years. The Board of Education replaced a 7.4 mil operating levy in November 2004 and a 4.8 mil operating levy in November 2005. In November 2006, the Board of Education replaced a 3.0 mils continuing operating levy.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mil would pay \$35.00 annually in taxes. If three years later the home was 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 mils and the owner would still pay \$35.00.

Thus, school 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 39% of revenues for governmental activities for the Hillsdale Local District in year 2008.

The District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched for the four years it was planned. This has been made increasingly difficult with mandates in rising utility costs, increased special education services required for our students, and significant increases in bus fuel/gas and bus parts/supplies.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of State funding based upon each district's property wealth. This could have a significant impact on the District. With the approval of the biennial budget, effective July 1, 2006, the State revenue is not anticipated to grow. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the District's systems of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the challenges of the 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 Marjorie Travis, Treasurer at 485 TR 1902, Jeromesville, Ohio, e-mail hill_travis@tccsa.net.

**BASIC
FINANCIAL STATEMENTS**

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2008

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents . . . | \$ 1,198,780 |
| Cash with fiscal agent | 1,582,959 |
| Receivables: | |
| Taxes | 4,491,780 |
| Accounts | 9,347 |
| Intergovernmental | 15,782 |
| Prepayments | 97,922 |
| Materials and supplies inventory | 14,816 |
| Inventory held for resale | 8,077 |
| Capital assets: | |
| Land | 51,970 |
| Depreciable capital assets, net | 1,715,395 |
| Total capital assets, net | <u>1,767,365</u> |
| Total assets | <u>9,186,828</u> |
| Liabilities: | |
| Accounts payable | 18,131 |
| Accrued wages and benefits | 1,003,160 |
| Pension obligation payable | 193,555 |
| Intergovernmental payable | 25,484 |
| Claims payable | 311,806 |
| Unearned revenue | 3,383,555 |
| Long-term liabilities: | |
| Due within one year | 181,976 |
| Due in more than one year | 916,629 |
| Total liabilities | <u>6,034,296</u> |
| Net assets: | |
| Invested in capital assets, net of related debt . . | 1,587,015 |
| Restricted for: | |
| Capital projects | 105,407 |
| Locally funded programs | 177 |
| Federally funded programs | 4,443 |
| Student activities | 24,090 |
| Unrestricted | <u>1,431,400</u> |
| Total net assets | <u>\$ 3,152,532</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | Expenses | Program Revenues | | | Net (Expense) |
|--|---------------------|--------------------------------------|--|--|---|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Assets |
| | | | | | Governmental Activities |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 4,328,520 | \$ 302,027 | \$ 31,406 | \$ - | \$ (3,995,087) |
| Special | 758,647 | 19,028 | 402,309 | - | (337,310) |
| Vocational | 355,749 | - | 59,599 | - | (296,150) |
| Other | 235,074 | - | - | - | (235,074) |
| Support services: | | | | | |
| Pupil | 545,981 | 3,035 | 151,755 | - | (391,191) |
| Instructional staff | 329,397 | - | 44,296 | - | (285,101) |
| Board of education | 45,296 | - | - | - | (45,296) |
| Administration | 768,606 | 509 | 66,288 | - | (701,809) |
| Fiscal | 335,273 | - | 150 | - | (335,123) |
| Operations and maintenance | 611,968 | - | 946 | - | (611,022) |
| Pupil transportation | 710,027 | 80 | 20,349 | 9,571 | (680,027) |
| Central | 9,000 | - | 9,000 | - | - |
| Operation of non-instructional services: | | | | | |
| Food service operations | 344,378 | 244,282 | 142,183 | - | 42,087 |
| Other non-instructional services | 2,212 | - | - | - | (2,212) |
| Extracurricular activities | 384,679 | 156,293 | 346 | - | (228,040) |
| Interest and fiscal charges | 9,755 | - | - | - | (9,755) |
| Total governmental activities | \$ 9,774,562 | \$ 725,254 | \$ 928,627 | \$ 9,571 | (8,111,110) |
| General revenues: | | | | | |
| Property taxes levied for: | | | | | |
| General purposes | | | | | 3,830,282 |
| Capital projects | | | | | 83,316 |
| Grants and entitlements not restricted to specific programs | | | | | 4,342,278 |
| Investment earnings | | | | | 124,696 |
| Miscellaneous | | | | | 95,850 |
| Total general revenues | | | | | 8,476,422 |
| Change in net assets | | | | | 365,312 |
| Net assets at beginning of year (restated) | | | | | 2,787,220 |
| Net assets at end of year | | | | | \$ 3,152,532 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 1,030,397 | \$ 168,383 | \$ 1,198,780 |
| Receivables: | | | |
| Taxes | 4,388,997 | 102,783 | 4,491,780 |
| Accounts | 5,277 | 4,070 | 9,347 |
| Intergovernmental | - | 15,782 | 15,782 |
| Interfund loan | 51,381 | - | 51,381 |
| Prepayments | 90,895 | 7,027 | 97,922 |
| Materials and supplies inventory | 13,644 | 1,172 | 14,816 |
| Inventory held for resale | - | 8,077 | 8,077 |
| Total assets | \$ 5,580,591 | \$ 307,294 | \$ 5,887,885 |
| Liabilities: | | | |
| Accounts payable | \$ 13,553 | \$ 4,578 | \$ 18,131 |
| Accrued wages and benefits | 950,865 | 52,295 | 1,003,160 |
| Compensated absences payable | 54,165 | - | 54,165 |
| Pension obligation payable | 180,162 | 13,393 | 193,555 |
| Interfund loan payable | - | 51,381 | 51,381 |
| Intergovernmental payable | 20,811 | 4,673 | 25,484 |
| Deferred revenue | 377,651 | 9,167 | 386,818 |
| Unearned revenue | 3,210,450 | 75,183 | 3,285,633 |
| Total liabilities | 4,807,657 | 210,670 | 5,018,327 |
| Fund balances: | | | |
| Reserved for encumbrances | 119,859 | 26,378 | 146,237 |
| Reserved for materials and supplies inventory | 13,644 | 9,249 | 22,893 |
| Reserved for property tax unavailable for appropriation | 800,896 | 18,756 | 819,652 |
| Reserved for prepayments | 90,895 | 7,027 | 97,922 |
| Unreserved, undesignated (deficit), reported in: | | | |
| General fund | (252,360) | - | (252,360) |
| Special revenue funds | - | (27,703) | (27,703) |
| Capital projects funds | - | 62,917 | 62,917 |
| Total fund balances | 772,934 | 96,624 | 869,558 |
| Total liabilities and fund balances | \$ 5,580,591 | \$ 307,294 | \$ 5,887,885 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

| | | | |
|--|----|-------------|-------------|
| Total governmental fund balances | | \$ | 869,558 |
| <i>Amounts reported for governmental activities on the statement of net assets are different because:</i> | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | | 1,767,365 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | | |
| Intergovernmental receivable | \$ | 323 | |
| Delinquent property taxes receivable | | 386,495 | |
| Total | | 386,495 | 386,818 |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | | | 1,173,231 |
| Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds. | | | |
| Energy conservation notes | | (180,350) | |
| Compensated absences payable | | (864,090) | |
| Total | | (1,044,440) | (1,044,440) |
| Net assets of governmental activities | | \$ | 3,152,532 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------|---|---|
| Revenues: | | | |
| From local sources: | | | |
| Taxes | \$ 3,823,573 | \$ 84,954 | \$ 3,908,527 |
| Tuition. | 265,129 | - | 265,129 |
| Transportation fees | 80 | - | 80 |
| Charges for services. | - | 243,420 | 243,420 |
| Earnings on investments. | 66,362 | - | 66,362 |
| Extracurricular. | - | 161,357 | 161,357 |
| Classroom materials and fees | 21,380 | 32,363 | 53,743 |
| Contributions and donations | 24,903 | - | 24,903 |
| Other local revenues. | 22,593 | 54,482 | 77,075 |
| Intergovernmental - Intermediate | - | 17,776 | 17,776 |
| Intergovernmental - State | 4,679,700 | 43,996 | 4,723,696 |
| Intergovernmental - Federal | - | 536,477 | 536,477 |
| Total revenue | <u>8,903,720</u> | <u>1,174,825</u> | <u>10,078,545</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 4,280,527 | 90,802 | 4,371,329 |
| Special. | 651,216 | 136,189 | 787,405 |
| Vocational. | 368,013 | 3,998 | 372,011 |
| Other | 235,074 | - | 235,074 |
| Support services: | | | |
| Pupil. | 369,730 | 185,635 | 555,365 |
| Instructional staff | 266,606 | 49,005 | 315,611 |
| Board of education | 50,177 | - | 50,177 |
| Administration. | 718,054 | 72,062 | 790,116 |
| Fiscal | 341,984 | 2,625 | 344,609 |
| Operations and maintenance. | 604,061 | 6,865 | 610,926 |
| Pupil transportation | 858,528 | - | 858,528 |
| Central. | - | 9,000 | 9,000 |
| Operation of non-instructional services: | | | |
| Food service operations | - | 362,938 | 362,938 |
| Other non-instructional services | 2,212 | - | 2,212 |
| Extracurricular activities. | 220,205 | 160,910 | 381,115 |
| Facilities acquisition and construction | 10,000 | 114,232 | 124,232 |
| Debt service: | | | |
| Principal retirement | - | 20,000 | 20,000 |
| Interest and fiscal charges | - | 9,755 | 9,755 |
| Total expenditures | <u>8,976,387</u> | <u>1,224,016</u> | <u>10,200,403</u> |
| Excess of expenditures over revenues | <u>(72,667)</u> | <u>(49,191)</u> | <u>(121,858)</u> |
| Other financing sources (uses): | | | |
| Sale of assets. | 302 | - | 302 |
| Transfers in | - | 29,755 | 29,755 |
| Transfers (out). | (29,755) | - | (29,755) |
| Total other financing sources (uses) | <u>(29,453)</u> | <u>29,755</u> | <u>302</u> |
| Net change in fund balances | (102,120) | (19,436) | (121,556) |
| Fund balances at beginning of year. | <u>875,054</u> | <u>116,060</u> | <u>991,114</u> |
| Fund balances at end of year | <u>\$ 772,934</u> | <u>\$ 96,624</u> | <u>\$ 869,558</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | | |
|--|------------------|------------------------------|
| Net change in fund balances - total governmental funds | \$ | (121,556) |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | | |
| Current year additions | \$ 201,388 | |
| Current year depreciation expense | <u>(150,693)</u> | 50,695 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. | | |
| | | (5,565) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Delinquent property taxes | 5,071 | |
| Intergovernmental | <u>(2,076)</u> | 2,995 |
| Total | | |
| The internal service fund used by management to charge the costs of insurance to various funds is not reported on the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue of the internal service fund is allocated among governmental activities. | | |
| | | 414,465 |
| Repayment of note obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. | | |
| | | 20,000 |
| Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| | | <u>4,278</u> |
| Change in net assets of governmental activities | \$ | <u><u>365,312</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 3,853,184 | \$ 4,146,959 | \$ 4,147,769 | \$ 810 |
| Tuition. | 246,299 | 265,077 | 265,129 | 52 |
| Earnings on investments. | 61,648 | 66,349 | 66,362 | 13 |
| Classroom materials and fees | 19,242 | 20,709 | 20,713 | 4 |
| Contributions and donations | 23,135 | 24,898 | 24,903 | 5 |
| Other local revenues. | 7,179 | 7,727 | 7,728 | 1 |
| Intergovernmental - State | 4,347,335 | 4,678,786 | 4,679,699 | 913 |
| Total revenue | <u>8,558,022</u> | <u>9,210,505</u> | <u>9,212,303</u> | <u>1,798</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,344,640 | 4,460,450 | 4,233,369 | 227,081 |
| Special. | 764,790 | 785,176 | 745,203 | 39,973 |
| Vocational. | 374,783 | 384,773 | 365,184 | 19,589 |
| Other | 241,253 | 247,684 | 235,074 | 12,610 |
| Support services: | | | | |
| Pupil. | 373,105 | 383,050 | 363,549 | 19,501 |
| Instructional staff | 272,173 | 279,428 | 265,202 | 14,226 |
| Board of education | 61,888 | 63,538 | 60,303 | 3,235 |
| Administration. | 740,781 | 760,528 | 721,809 | 38,719 |
| Fiscal | 348,847 | 358,146 | 339,913 | 18,233 |
| Operations and maintenance. | 636,126 | 653,082 | 619,834 | 33,248 |
| Pupil transportation | 882,078 | 905,591 | 859,487 | 46,104 |
| Operation of non-instructional services | 2,270 | 2,331 | 2,212 | 119 |
| Extracurricular activities. | 226,224 | 232,254 | 220,430 | 11,824 |
| Facilities acquisition and construction. | 30,789 | 31,609 | 30,000 | 1,609 |
| Total expenditures | <u>9,299,747</u> | <u>9,547,640</u> | <u>9,061,569</u> | <u>486,071</u> |
| Excess of revenues over (under) expenditures. | <u>(741,725)</u> | <u>(337,135)</u> | <u>150,734</u> | <u>487,869</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure | 12,472 | 13,423 | 13,423 | - |
| Transfers (out) | (28,982) | (29,755) | (29,755) | - |
| Advances in. | 57,976 | 62,396 | 62,396 | - |
| Advances (out) | (50,047) | (51,381) | (51,381) | - |
| Sale of assets. | 281 | 302 | 302 | - |
| Total other financing sources (uses) | <u>(8,300)</u> | <u>(5,015)</u> | <u>(5,015)</u> | <u>-</u> |
| Net change in fund balance | (750,025) | (342,150) | 145,719 | 487,869 |
| Fund balance at beginning of year. | 586,955 | 586,955 | 586,955 | - |
| Prior year encumbrances appropriated | 163,206 | 163,206 | 163,206 | - |
| Fund balance at end of year | <u>\$ 136</u> | <u>\$ 408,011</u> | <u>\$ 895,880</u> | <u>\$ 487,869</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

| | Governmental Activities - Internal Service Fund |
|----------------------------------|--|
| Assets: | |
| Current assets: | |
| Cash with fiscal agent | \$ 1,582,959 |
| Total assets | <u>1,582,959</u> |
| Liabilities: | |
| Claims payable | 311,806 |
| Unearned revenue | <u>97,922</u> |
| Total liabilities | <u>409,728</u> |
| Net assets: | |
| Unrestricted. | <u>1,173,231</u> |
| Total net assets | <u><u>\$ 1,173,231</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | Governmental Activities - Internal Service Fund |
|--|--|
| Operating revenues: | |
| Charges for services | \$ 1,479,211 |
| Total operating revenues | <u>1,479,211</u> |
| Operating expenses: | |
| Fringe benefits. | 294,000 |
| Claims. | 829,080 |
| Total operating expenses | <u>1,123,080</u> |
| Operating income | <u>356,131</u> |
| Nonoperating revenues: | |
| Interest revenue. | <u>58,334</u> |
| Total nonoperating revenues | <u>58,334</u> |
| Change in net assets. | 414,465 |
| Net assets at beginning of year | <u>758,766</u> |
| Net assets at end of year | <u><u>\$ 1,173,231</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

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 charges for services | \$ 1,463,098 |
| Cash payments for fringe benefits. | (294,000) |
| Cash payments for claims. | <u>(810,470)</u> |
| Net cash provided by operating activities | <u>358,628</u> |
| Cash flows from investing activities: | |
| Interest received | <u>58,334</u> |
| Net cash provided by investing activities | <u>58,334</u> |
| Net increase in cash and cash equivalents | 416,962 |
| Cash and cash equivalents at beginning of year. . . | <u>1,165,997</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 1,582,959</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income. | \$ 356,131 |
| Changes in assets and liabilities: | |
| Increase in claims payable | 18,610 |
| (Decrease) in unearned revenue. | <u>(16,113)</u> |
| Net cash provided by operating activities | <u><u>\$ 358,628</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

| | Private-Purpose Trust | Agency |
|---|----------------------------------|---------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 8,344 | \$ 31,935 |
| Receivables: | | |
| Accounts | - | 805 |
| Total assets. | 8,344 | \$ 32,740 |
| Liabilities: | | |
| Accounts payable. | - | \$ 4,529 |
| Due to others. | - | 1,354 |
| Due to students | - | 26,857 |
| Total liabilities | - | \$ 32,740 |
| Net assets: | | |
| Held in trust for scholarships | 8,344 | |
| Total net assets | \$ 8,344 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest | \$ 333 |
| Total additions. | 333 |
| Deductions: | |
| Scholarships awarded | 300 |
| Change in net assets | 33 |
| Net assets at beginning of year | 8,311 |
| Net assets at end of year | \$ 8,344 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Hillsdale Local School District (the "District") was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members and is responsible for providing public education to residents of the District.

The District ranks as the 450th largest by enrollment among the 896 public school districts and community schools in the State. The District employs 46 non-certified and 79 certified full-time and part-time employees to provide services to 1,134 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 governmental activities and proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District.

JOINTLY GOVERNED ORGANIZATIONS

Tri-County Computer Service Association

The Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic technology for administrative and instructional functions for member school districts. Each of the governments of these school districts supports TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. TCCSA is governed by a Board of Directors chosen from the general membership of the TCCSA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating school districts are located. Financial information can be obtained by contacting the treasurer at Tri-County Educational Services Center, which serves as fiscal agent, located in Wooster, Ohio. During the year ended June 30, 2008, the District paid \$74,097 to TCCSA.

Ashland County - West Holmes Career Center

The Ashland County-West Holmes Career Center (the "Career Center"), a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven-member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of the State of Ohio. The continued existence of the Career Center is not dependent on the District's continued participation and no measurable equity interest exists.

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Educational Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing insurance. OME-RESA is governed by a board of directors consisting of the 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.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

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.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for grants and other resources whose use is restricted to a particular purpose; (c) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; and (d) for food service operations.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

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. The District's only trust fund is a private purpose trust fund which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities and monies held on-behalf of others.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. 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, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. Operating expenses for the internal service fund includes claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The private purpose trust fund is reported using the economic resources measurement focus. The agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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, include property taxes, income 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 (see Note 6).

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 fiscal 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 fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue in the governmental funds.

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

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

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 in the budgetary statements reflect the amounts in the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final certificate of estimated resources in effect when the final appropriations were passed.

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

During fiscal year 2008, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes, all investment earnings are assigned to the general fund, unless statutorily required to be credited to a specific fund or by Board resolution. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$66,362, which includes \$11,834 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$3,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | Governmental Activities <u>Estimated Lives</u> |
|----------------------------|--|
| Land improvements | 5 - 50 years |
| Buildings and improvements | 5 - 50 years |
| Furniture and equipment | 5 - 20 years |
| Vehicles | 6 - 20 years |
| Infrastructure | 5 - 50 years |
| Textbooks | 20 years |

I. Interfund Balances

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.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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 is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. 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 encumbrances, materials and supplies inventory, prepayments and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. 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 fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had no restricted assets at June 30, 2008.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

NOTE 3 - ACCOUNTABILITY, COMPLIANCE AND PRIOR PERIOD RESTATEMENT

A. Change in Accounting Principles

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 12) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY, COMPLIANCE AND PRIOR PERIOD RESTATEMENT - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits:

| <u>Nonmajor funds</u> | <u>Deficit</u> |
|---------------------------|----------------|
| Food service | \$ 55,511 |
| Entry year programs | 4 |
| Vocational education | 3,210 |
| Title I | 2,676 |
| Improving teacher quality | 3,722 |

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

C. Restatement of Net Assets

The District has reported a prior period adjustment to correct for errors and omissions in amounts previously reported in capital assets and accumulated depreciation at June 30, 2007 (see Note 8 for detail). The prior period adjustment had the following effect on net assets as previously reported:

| | <u>Governmental Activities</u> |
|-----------------------------------|------------------------------------|
| Net assets, June 30, 2007 | \$ 2,694,097 |
| Adjustment for capital assets | 93,123 |
| Restated net assets, July 1, 2007 | <u>\$ 2,787,220</u> |

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

Interim monies 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;

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations 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 items (1) and (2) above 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 banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date 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, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 the repayment of all public monies deposited with the institution.

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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$125 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents."

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent (see Note 10.D). The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2008 was \$1,582,959. This represents the balance of the District's employee benefit self-insurance fund. This amount is not included in the "deposits" or "investments" reported below.

C. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all District deposits was \$141,621. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$43,128 of the District's bank balance of \$243,128 was exposed to custodial risk as discussed below, while \$200,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

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

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturity</u> 6 months or less |
|------------------------|---------------------|---|
| STAR Ohio | <u>\$ 1,097,313</u> | <u>\$ 1,097,313</u> |
| Total | <u>\$ 1,097,313</u> | <u>\$ 1,097,313</u> |

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio was rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, 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 investment or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% to Total</u> |
|------------------------|---------------------|-------------------|
| STAR Ohio | \$ 1,097,313 | 100.00 |
| Total | <u>\$ 1,097,313</u> | <u>100.00</u> |

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

| | |
|---|---------------------|
| <u>Cash and investments per note</u> | |
| Carrying amount of deposits | \$ 141,621 |
| Investments | 1,097,313 |
| Cash on hand | 125 |
| Cash with fiscal agent | <u>1,582,959</u> |
| Total | <u>\$ 2,822,018</u> |
| <u>Cash and investments per statement of net assets</u> | |
| Governmental activities | \$ 2,781,739 |
| Private-purpose trust fund | 8,344 |
| Agency funds | <u>31,935</u> |
| Total | <u>\$ 2,822,018</u> |

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2008 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u> |
|------------------------|----------------------------|------------------|
| General | Nonmajor governmental fund | <u>\$ 51,381</u> |

The primary purpose of the interfund balance is to cover costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received. The interfund balance is expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements.

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the fiscal year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

| <u>Transfers from</u> | <u>Transfers to</u> | <u>Amount</u> |
|-----------------------|----------------------------|------------------|
| General | Nonmajor governmental fund | <u>\$ 29,755</u> |

This transfer was required to move resources from the general fund to the debt service fund for retirement of the District's energy conservation notes. Interfund transfers between governmental funds are eliminated on the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Ashland and Wayne Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date tax bills are sent. The amount available as an advance at June 30, 2008 was \$800,896 in the general fund and \$18,756 in the permanent improvement fund (a nonmajor governmental fund). This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2007 was \$1,125,092 in the general fund and \$31,793 in the permanent improvement fund (a nonmajor governmental fund).

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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:

| | 2007 Second Half Collections | | 2008 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 108,176,840 | 80.34 | \$ 116,141,350 | 86.80 |
| Public utility personal | 20,848,496 | 15.48 | 15,854,000 | 11.85 |
| Tangible personal property | <u>5,624,780</u> | <u>4.18</u> | <u>1,812,250</u> | <u>1.35</u> |
| Total | <u>\$ 134,650,116</u> | <u>100.00</u> | <u>\$ 133,807,600</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$49.40 | | \$49.40 | |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2008 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. 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. A summary of the receivables on the statement of net assets follows:

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 7 - RECEIVABLES - (Continued)

Governmental activities:

| | |
|-------------------|---------------------|
| Taxes | \$ 4,491,780 |
| Accounts | 9,347 |
| Intergovernmental | <u>15,782</u> |
| Total | <u>\$ 4,516,909</u> |

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

Governmental activities capital assets and accumulated depreciation have been restated to correct for errors and omissions in the amounts previously reported at June 30, 2007. The following table summarizes the adjustments to capital assets as previously reported at June 30, 2007:

| | Balance June 30, 2007 | Adjustment | Restated Balance June 30, 2007 |
|---|--------------------------|--------------------|--------------------------------------|
| Governmental Activities: | | | |
| <i>Capital assets, not being depreciated:</i> | | | |
| Land | \$ 51,970 | \$ - | \$ 51,970 |
| Total capital assets, not being depreciated | <u>51,970</u> | <u>-</u> | <u>51,970</u> |
| <i>Capital assets, being depreciated:</i> | | | |
| Land improvements | 364,932 | (60,246) | 304,686 |
| Buildings and improvements | 2,739,841 | (112,659) | 2,627,182 |
| Furniture and equipment | 1,856,483 | (920,488) | 935,995 |
| Vehicles | 802,874 | (113,346) | 689,528 |
| Infrastructure | 15,220 | (4,365) | 10,855 |
| Textbooks | <u>532,988</u> | <u>-</u> | <u>532,988</u> |
| Total capital assets, being depreciated | <u>6,312,338</u> | <u>(1,211,104)</u> | <u>5,101,234</u> |
| <i>Less: accumulated depreciation:</i> | | | |
| Land improvements | (191,600) | 38,486 | (153,114) |
| Land improvements | (2,019,170) | 280,130 | (1,739,040) |
| Furniture and equipment | (1,463,577) | 845,298 | (618,279) |
| Vehicles | (561,747) | 83,865 | (477,882) |
| Infrastructure | (13,760) | 3,990 | (9,770) |
| Textbooks | <u>(485,342)</u> | <u>52,458</u> | <u>(432,884)</u> |
| Total accumulated depreciation | <u>(4,735,196)</u> | <u>1,304,227</u> | <u>(3,430,969)</u> |
| Governmental activities capital assets, net | <u>\$ 1,629,112</u> | <u>\$ 93,123</u> | <u>\$ 1,722,235</u> |

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - CAPITAL ASSETS - (Continued)

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

| Governmental Activities: | Restated Balance <u>June 30, 2007</u> | <u>Additions</u> | <u>Disposals</u> | Balance <u>June 30, 2008</u> |
|---|---|------------------|-------------------|---------------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 51,970 | \$ - | \$ - | \$ 51,970 |
| Total capital assets, not being depreciated | <u>51,970</u> | <u>-</u> | <u>-</u> | <u>51,970</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 304,686 | - | - | 304,686 |
| Buildings and improvements | 2,627,182 | - | - | 2,627,182 |
| Furniture and equipment | 935,995 | 35,018 | (16,229) | 954,784 |
| Vehicles | 689,528 | 166,370 | - | 855,898 |
| Infrastructure | 10,855 | - | - | 10,855 |
| Textbooks | <u>532,988</u> | <u>-</u> | <u>-</u> | <u>532,988</u> |
| Total capital assets, being depreciated | <u>5,101,234</u> | <u>201,388</u> | <u>(16,229)</u> | <u>5,286,393</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (153,114) | (3,487) | - | (156,601) |
| Land improvements | (1,739,040) | (11,342) | - | (1,750,382) |
| Furniture and equipment | (618,279) | (56,143) | 10,664 | (663,758) |
| Vehicles | (477,882) | (57,107) | - | (534,989) |
| Infrastructure | (9,770) | - | - | (9,770) |
| Textbooks | <u>(432,884)</u> | <u>(22,614)</u> | <u>-</u> | <u>(455,498)</u> |
| Total accumulated depreciation | <u>(3,430,969)</u> | <u>(150,693)</u> | <u>10,664</u> | <u>(3,570,998)</u> |
| Governmental activities capital assets, net | <u>\$ 1,722,235</u> | <u>\$ 50,695</u> | <u>\$ (5,565)</u> | <u>\$ 1,767,365</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 40,982 |
| Special | 1,101 |
| Vocational | 1,000 |
| <u>Support services:</u> | |
| Instructional staff | 16,544 |
| Administration | 49 |
| Operations and maintenance | 16,126 |
| Pupil transportation | 67,044 |
| Extracurricular activities | 6,744 |
| Food service operations | <u>1,103</u> |
| Total depreciation expense | <u>\$ 150,693</u> |

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2008, the following changes occurred in governmental activities long-term obligations:

| | Balance Outstanding <u>June 30, 2007</u> | <u>Additions</u> | <u>Reductions</u> | Balance Outstanding <u>June 30, 2008</u> | Amounts Due in <u>One Year</u> |
|--|--|------------------|--------------------|--|--------------------------------------|
| 2000 Energy Conservation Notes: \$287,000, 5.125% interest rate, matures December 31, 2013 | \$ 200,350 | \$ - | \$ (20,000) | \$ 180,350 | \$ 22,500 |
| Compensated absences | <u>907,270</u> | <u>79,787</u> | <u>(68,802)</u> | <u>918,255</u> | <u>159,476</u> |
| Total governmental activities | <u>\$ 1,107,620</u> | <u>\$ 79,787</u> | <u>\$ (88,802)</u> | <u>\$ 1,098,605</u> | <u>\$ 181,976</u> |

The energy conservation notes are direct obligations of the District for which its full faith, credit and resources are pledged. Proceeds from the notes were used for energy conservation improvements to school buildings. Principal and interest payments on the energy conservation notes are made from the debt service fund (a nonmajor governmental fund).

Compensated absences will be paid from the fund which the employee's salaries are paid which, for the District is the general fund and the following nonmajor governmental funds: the food service fund and the Title I fund.

Principal and interest requirements to retire the energy conservation notes outstanding at June 30, 2008, are as follows:

| Fiscal Year Ending June 30 | <u>Energy Conservation Notes</u> | | |
|-------------------------------|----------------------------------|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2009 | \$ 22,500 | \$ 8,666 | \$ 31,166 |
| 2010 | 25,000 | 7,450 | 32,450 |
| 2011 | 27,500 | 6,104 | 33,604 |
| 2012 | 30,000 | 4,630 | 34,630 |
| 2013 | 35,000 | 2,965 | 37,965 |
| 2014 | <u>40,350</u> | <u>1,034</u> | <u>41,384</u> |
| Total | <u>\$ 180,350</u> | <u>\$ 30,849</u> | <u>\$ 211,199</u> |

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2008, are a voted debt margin of \$11,879,582 and an unvoted debt margin of \$131,995.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has a comprehensive property and casualty policy with a deductible of \$1,000 per accident on property and \$1,000 per incident on equipment. The District's vehicle insurance policy limit with umbrella coverage is a total of \$6,000,000 with a \$1,000 collision deductible. All board members, administrators and employees are covered under a school district liability policy. Additionally the District carries a \$5,000,000 blanket umbrella policy. The limits of this coverage are \$6,000,000 per occurrence and \$8,000,000 per aggregate. Settlement claims have not exceeded coverage in any of the past three years. There have no significant reductions in insurance coverage from last year.

B. Fidelity Bond

The Board President, Superintendent and Treasurer/CFO hold position bonds through OSBA with limits of \$20,000, \$20,000 and \$100,000, respectively. All other school employees are covered under the District's employee honesty coverage with a \$500,000 limit and a \$1,000 deductible, which is separate from the property policy.

C. Workers' Compensation

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. For fiscal year 2008, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund".

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - RISK MANAGEMENT - (Continued)

This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

D. Employee Health Insurance

Medical/surgical, prescription, vision and dental insurance is offered to employees through a self-insurance program. The District has established a self-insurance internal service fund to account for this activity. The District is a member of the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) self-insurance plan, a claims servicing pool, consisting of over fifty members, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District’s behalf. The Jefferson County Educational Service Center is fiscal agent for the OME-RESA self-insurance plan.

The claims liability of \$311,806 reported in the internal service fund at June 30, 2008 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30, “Risk Financing Omnibus”, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

| <u>Fiscal Year</u> | <u>Balance at Beginning of Year</u> | <u>Current Year Claims</u> | <u>Claim Payments</u> | <u>Balance at End of Year</u> |
|------------------------|---|--------------------------------|---------------------------|-----------------------------------|
| 2008 | \$ 293,196 | \$ 829,080 | \$ (810,470) | \$ 311,806 |
| 2007 | 392,880 | 628,604 | (728,288) | 293,196 |

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

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

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$86,444, \$90,147 and \$96,634, respectively; 42.56 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

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

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$554,384, \$538,733 and \$561,399, respectively; 83.46 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$3,364 made by the District and \$7,625 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$57,730, \$47,929 and \$51,533, respectively; 42.56 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$6,228, \$6,130 and \$7,691, respectively; 42.56 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$42,645, \$41,441 and \$43,185, respectively; 83.46 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

| | <u>General Fund</u> |
|---|---------------------|
| Budget basis | \$ 145,719 |
| Net adjustment for revenue accruals | (308,583) |
| Net adjustment for expenditure accruals | (49,335) |
| Net adjustment for other sources/uses | (24,438) |
| Adjustment for encumbrances | <u>134,517</u> |
| GAAP basis | <u>\$ (102,120)</u> |

NOTE 14 - CONTINGENCIES

A. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not involved in material litigation as either plaintiff or defendant at June 30, 2008.

NOTE 15 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2008, the reserve activity was as follows:

| | <u>Textbooks/ Instructional Materials</u> | <u>Capital Acquisition</u> |
|---------------------------------------|---|--------------------------------|
| Set-aside balance as of June 30, 2007 | \$ (532,084) | \$ - |
| Current year set-aside requirement | 163,513 | 163,513 |
| Current year offsets | - | (117,640) |
| Qualifying disbursements | <u>(208,319)</u> | <u>(65,165)</u> |
| Total | <u>\$ (576,890)</u> | <u>\$ (19,292)</u> |
| Balance carried forward to FY 2009 | <u>\$ (576,890)</u> | <u>\$ -</u> |

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 15 - STATUTORY RESERVES - (Continued)

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbooks/instructional materials reserve. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year. The capital acquisition reserve had current year offsets (not debt related) and qualifying disbursements in excess of current year set-aside requirement. This amount may not be carried forward to future years.

SUPPLEMENTARY DATA

**HILLSDALE LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | (D) PASS-THROUGH GRANT NUMBER | (C) CASH FEDERAL RECEIPTS | (C) CASH FEDERAL DISBURSEMENTS |
|---|----------------|--|------------------------------------|---|
| U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION | | | | |
| (A) Food Donation | 10.550 | 2008 | \$ 23,626 | \$ 23,626 |
| Total Food Donation | | | <u>23,626</u> | <u>23,626</u> |
| (B) National School Lunch Program | 10.555 | 2008 | 129,990 | 129,990 |
| Total National School Lunch Program | | | <u>129,990</u> | <u>129,990</u> |
| Total U.S. Department of Agriculture | | | <u>153,616</u> | <u>153,616</u> |
| U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 2007 | 15,395 | 16,649 |
| Title I Grants to Local Educational Agencies | 84.010 | 2008 | 110,299 | 110,299 |
| Total Title I Grants to Local Educational Agencies | | | <u>125,694</u> | <u>126,948</u> |
| Special Education_Grants to States | 84.027 | 2008 | 224,466 | 224,466 |
| Total Special Education Grants to State | | | <u>224,466</u> | <u>224,466</u> |
| (E) Safe and Drug-Free Schools and Communities_State Grants | 84.186 | 2007 | (394) | - |
| Safe and Drug-Free Schools and Communities_State Grants | 84.186 | 2008 | 4,048 | 3,634 |
| Total Safe and Drug-Free Schools and Communities_State Grants | | | <u>3,654</u> | <u>3,634</u> |
| (E) State Grants for Innovative Programs | 84.298 | 2007 | (763) | - |
| State Grants for Innovative Programs | 84.298 | 2008 | 2,602 | 2,602 |
| Total State Grants for Innovative Programs | | | <u>1,839</u> | <u>2,602</u> |
| (E) Education Technology State Grants | 84.318 | 2007 | (322) | - |
| Education Technology State Grant: | 84.318 | 2008 | 1,486 | 1,486 |
| Total Educational Technology State Grants | | | <u>1,164</u> | <u>1,486</u> |
| (E) Improving Teacher Quality State Grants | 84.367 | 2007 | (1,233) | - |
| Improving Teacher Quality State Grants | 84.367 | 2008 | 38,920 | 29,784 |
| Total Improving Teacher Quality State Grants | | | <u>37,687</u> | <u>29,784</u> |
| Total U.S. Department of Education | | | <u>394,504</u> | <u>388,920</u> |
| Total Federal Financial Assistance | | | <u>\$ 548,120</u> | <u>\$ 542,536</u> |

- (A) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices
 (B) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first in, first out basis
 (C) This schedule was prepared on the cash basis of accounting
 (D) OAKS did not assign pass-through number for fiscal year 2008
 (E) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th as spent by September 30th). However, with Ohio Department of Education ("ODE")'s approval, a District may transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2008, the ODE authorized the following transfer:

| Program Title | CFDA | Grant Year | Transfers Out | Transfers In |
|--|--------|------------|-----------------|-----------------|
| Safe and Drug -Free Schools and Communities_State Grant: | 84.186 | 2007 | \$ 394 | |
| Safe and Drug -Free Schools and Communities_State Grant: | 84.186 | 2008 | | \$ 394 |
| State Grants for Innovative Program: | 84.298 | 2007 | 763 | |
| State Grants for Innovative Program: | 84.298 | 2008 | | 763 |
| Education Technology State Grant: | 84.318 | 2007 | 322 | |
| Education Technology State Grant: | 84.318 | 2008 | | 322 |
| Improving Teacher Quality State Grant: | 84.367 | 2007 | 1,233 | |
| Improving Teacher Quality State Grant: | 84.367 | 2008 | | 1,233 |
| Totals | | | <u>\$ 2,712</u> | <u>\$ 2,712</u> |



Julian & Grube, Inc.
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**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***

Board of Education
Hillsdale Local School District
485 Twp. Rd. 1902
Jeromesville, OH 44840-9754

We have audited the financial statements of the governmental activities, its major fund and the aggregate remaining fund information of Hillsdale Local School District as of and for the fiscal year ended June 30, 2008, which collectively comprise Hillsdale Local School District's basic financial statements and have issued our report thereon dated January 9, 2009. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillsdale Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hillsdale Local School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hillsdale Local 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 the normal course of 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 Hillsdale Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Hillsdale Local School District's financial statements that is more than inconsequential will not be prevented or detected by Hillsdale Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hillsdale Local School District's internal control.

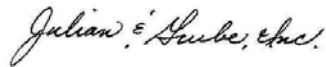
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify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

Board of Education
Hillsdale Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsdale Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education of Hillsdale Local School District federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
January 9, 2009



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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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
Hillsdale Local School District
485 Twp. Rd. 1902
Jeromesville, OH 44840-9754

Compliance

We have audited the compliance of Hillsdale Local 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 fiscal year ended June 30, 2008. Hillsdale Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hillsdale Local School District's management. Our responsibility is to express an opinion on Hillsdale Local 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, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hillsdale Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hillsdale Local School District's compliance with those requirements.

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

Internal Control Over Compliance

The management of Hillsdale Local School District 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 Hillsdale Local School District's internal control over compliance with the requirements that could have a direct and material effect on 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 Hillsdale Local School District's internal control over compliance.

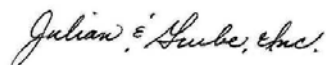
Board of Education
Hillsdale Local School District

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Hillsdale Local School District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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.

This report is intended for the information and use of management and Board of Education of Hillsdale Local School District and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
January 9, 2009

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

| 1. SUMMARY OF AUDITOR'S RESULTS | | |
|--|---|--|
| <i>(d)(1)(i)</i> | <i>Type of Financial Statement Opinion</i> | Unqualified |
| <i>(d)(1)(ii)</i> | <i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(ii)</i> | <i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(iii)</i> | <i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(iv)</i> | <i>Were there any material internal control weaknesses reported for major federal programs?</i> | No |
| <i>(d)(1)(iv)</i> | <i>Were there any significant deficiencies in internal control reported for major federal programs?</i> | No |
| <i>(d)(1)(v)</i> | <i>Type of Major Programs' Compliance Opinion</i> | Unqualified |
| <i>(d)(1)(vi)</i> | <i>Are there any reportable findings under §.510?</i> | No |
| <i>(d)(1)(vii)</i> | <i>Major Programs (listed):</i> | Title I Grants to Local Educational Agencies - CFDA #84.010; Special Education Grants to States - CFDA #84.027 |
| <i>(d)(1)(viii)</i> | <i>Dollar Threshold: Type A/B Programs</i> | Type A: > \$300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | <i>Low Risk Auditee?</i> | No |

| |
|--|
| 2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

None

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008

| <u>Finding Number</u> | <u>Finding Summary</u> | <u>Fully Corrected?</u> | <u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u> |
|-----------------------|--|-------------------------|--|
| 2007-HLSD-001 | SAS-112 significant deficiency over reporting of capital assets. | Yes | N/A |



Mary Taylor, CPA
Auditor of State

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 5, 2009