

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2009

MARJORIE TRAVIS, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Hillsdale Local School District
485 Twp Rd 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, 2008 through June 30, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 22, 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, 2009, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2009, 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 November 23, 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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 23, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, 2009. 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 2009 are as follows:

- In total, net assets of governmental activities increased \$495,937 which represents a 15.73% increase from 2008.
- General revenues accounted for \$9,030,022 in revenue or 83.27% of all revenues. Program specific revenues, in the form of charges for services and sales, grants and contributions accounted for \$1,813,836 or 16.73% of total revenues of \$10,843,858.
- The District had \$10,347,921 in expenses related to governmental activities; only \$1,813,836 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 \$9,030,022 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$9,683,518 in revenues and other financing sources and \$8,848,605 in expenditures and other financing uses. During fiscal 2009, the general fund's fund balance increased \$834,913 from \$772,934 to \$1,607,847.

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 2009?" 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, 2009**

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* than 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, 2009

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 25-49 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2009 and 2008.

	Net Assets	
	Governmental Activities 2009	Governmental Activities 2008
<u>Assets</u>		
Current and other assets	\$ 7,340,808	\$ 7,419,463
Capital assets, net	1,762,579	1,767,365
Total assets	9,103,387	9,186,828
<u>Liabilities</u>		
Current liabilities	4,391,014	4,935,691
Long-term liabilities	1,063,904	1,098,605
Total liabilities	5,454,918	6,034,296
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,604,729	1,587,015
Restricted	235,741	134,117
Unrestricted	1,807,999	1,431,400
Total net assets	\$ 3,648,469	\$ 3,152,532

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the District's assets exceeded liabilities by \$3,648,469.

At year-end, capital assets represented 19.36% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure, textbooks and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2009, were \$1,604,729. 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.

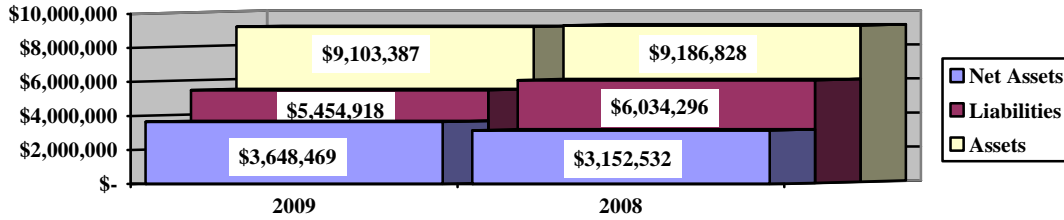
A portion of the District's net assets, \$235,741, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,807,999 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The graph below reports the District's governmental activities assets, liabilities and net assets at June 30, 2009 and 2008.

Governmental Activities



The table below shows the change in net assets for fiscal year 2009 and 2008.

	Change in Net Assets	
	Governmental Activities 2009	Governmental Activities 2008
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 860,717	\$ 725,254
Operating grants and contributions	939,197	928,627
Capital grants and contributions	13,922	9,571
General revenues:		
Property taxes	4,476,065	3,913,598
Grants and entitlements	4,432,640	4,342,278
Investment earnings	64,550	124,696
Other	56,767	95,850
Total revenues	10,843,858	10,139,874

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Change in Net Assets	
	Governmental Activities 2009	Governmental Activities 2008
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,563,721	\$ 4,328,520
Special	751,199	758,647
Vocational	396,829	355,749
Other	237,716	235,074
Support services:		
Pupil	569,186	545,981
Instructional staff	319,412	329,397
Board of education	37,689	45,296
Administration	844,418	768,606
Fiscal	348,220	335,273
Operations and maintenance	679,077	611,968
Pupil transportation	793,843	710,027
Central	9,000	9,000
Operation of non-instructional services:		
Food service operations	378,385	344,378
Other non-instructional services	782	2,212
Extracurricular activities	409,778	384,679
Interest and fiscal charges	8,666	9,755
Total expenses	10,347,921	9,774,562
Change in net assets	495,937	365,312
Net assets at beginning of year (restated)	3,152,532	2,787,220
Net assets at end of year	\$ 3,648,469	\$ 3,152,532

Governmental Activities

Net assets of the District's governmental activities increased \$495,937. Total governmental expenses of \$10,347,921 were offset by program revenues of \$1,813,836 and general revenues of \$9,030,022. Program revenues supported 17.53% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 82.15% of total governmental revenue. Real estate property is reappraised every six years.

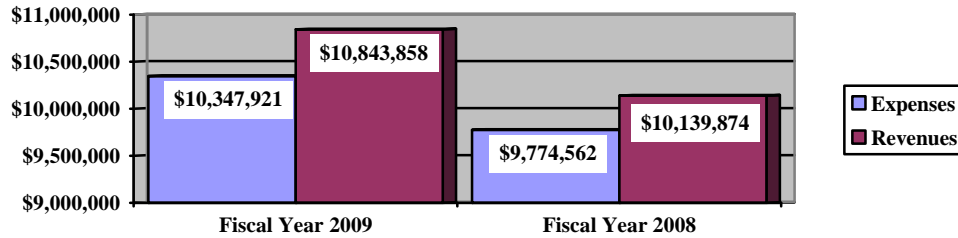
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,949,465 or 57.49% of total governmental expenses for fiscal 2009.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2009 and 2008.

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>2009</u>	Net Cost of Services <u>2009</u>	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>
Program expenses				
Instruction:				
Regular	\$ 4,563,721	\$ 4,122,976	\$ 4,328,520	\$ 3,995,087
Special	751,199	309,309	758,647	337,310
Vocational	396,829	329,538	355,749	296,150
Other	237,716	237,716	235,074	235,074
Support services:				
Pupil	569,186	392,301	545,981	391,191
Instructional staff	319,412	284,275	329,397	285,101
Board of education	37,689	37,689	45,296	45,296
Administration	844,418	813,856	768,606	701,809
Fiscal	348,220	348,070	335,273	335,123
Operations and maintenance	679,077	678,209	611,968	611,022
Pupil transportation	793,843	761,499	710,027	680,027
Central	9,000	-	9,000	-
Food service operations	378,385	(19,059)	344,378	(42,087)
Operations of non-instructional services	782	782	2,212	2,212
Extracurricular activities	409,778	228,258	384,679	228,040
Interest and fiscal charges	8,666	8,666	9,755	9,755
Total expenses	<u>\$ 10,347,921</u>	<u>\$ 8,534,085</u>	<u>\$ 9,774,562</u>	<u>\$ 8,111,110</u>

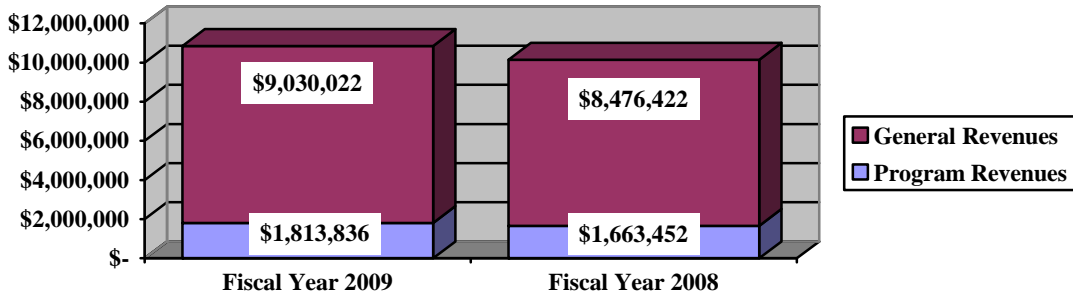
The dependence upon tax and other general revenues for governmental activities is apparent, 84.03% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.47%. The District's taxpayers and unrestricted grants and 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, 2009**

The graph below presents the District's governmental activities revenue for fiscal year 2009 and 2008.

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 \$1,811,655, which is higher than last year's total of \$869,558. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	Fund Balance <u>June 30, 2009</u>	Fund Balance <u>June 30, 2008</u>	<u>Increase</u>
General	\$ 1,607,847	\$ 772,934	\$ 834,913
Other governmental	<u>203,808</u>	<u>96,624</u>	<u>107,184</u>
Total	<u>\$ 1,811,655</u>	<u>\$ 869,558</u>	<u>\$ 942,097</u>

General Fund

The District's general fund's fund balance increased by \$834,913. This increase is primarily the result of increased property tax revenues coupled with an increase in tuition.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,478,440	\$ 3,823,573	17.13 %
Tuition	378,926	265,129	42.92 %
Earnings on investments	25,794	66,362	(61.13) %
Intergovernmental	4,770,947	4,679,700	1.95 %
Other revenues	<u>27,293</u>	<u>68,956</u>	(60.42) %
Total	<u>\$ 9,681,400</u>	<u>\$ 8,903,720</u>	8.73 %
<u>Expenditures</u>			
Instruction	\$ 5,497,106	\$ 5,534,830	(0.68) %
Support services	3,089,411	3,209,140	(3.73) %
Operation of non-instructional services	782	2,212	(64.65) %
Extracurricular activities	230,140	220,205	4.51 %
Facilities acquisition and construction	<u>-</u>	<u>10,000</u>	100.00 %
Total	<u>\$ 8,817,439</u>	<u>\$ 8,976,387</u>	(1.77) %

Tax revenues increased 17.13%. This increase is the result of a larger 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, 2009 and 2008 were \$1,097,565 and \$800,896, respectively. Tuition increased due to an increase in open enrollment. Earnings on investments decreased 61.13% due to lower interest rates earned on investments. Other revenue decreased 60.42% mainly due to a decrease in classroom fees and decreased 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 2009, the District amended its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$9,227,531 and \$9,288,231 respectively. Actual revenues and other financing sources for fiscal 2009 was \$9,288,983. This represents a \$752 increase over final budgeted revenues.

General fund original and final appropriations (appropriated expenditures and other financing uses) were \$9,805,892 and \$9,605,892 respectively. The actual budget basis expenditures and other financing uses for fiscal year 2009 totaled \$8,960,410, which was \$645,482 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, 2009

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2009, the District had \$1,762,579 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure, textbooks and construction in progress. The entire amount is reported in governmental activities. The following table shows fiscal 2009 balances compared to 2008:

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

Governmental Activities

	<u>2009</u>	<u>2008</u>
Land	\$ 51,970	\$ 51,970
Construction in progress	55,393	-
Land improvements	144,598	148,085
Building and improvements	925,842	876,800
Furniture and equipment	261,797	291,026
Vehicles	246,282	320,909
Infrastructure	16,689	1,085
Textbooks	<u>60,008</u>	<u>77,490</u>
Total	<u>\$ 1,762,579</u>	<u>\$ 1,767,365</u>

Total additions to capital assets for 2009 were \$156,623. Disposals to capital assets for 2009 were \$7,324 (net of accumulated depreciation). Depreciation expense for fiscal 2009 was \$154,085. Overall, capital assets of the District decreased \$4,786. See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2009, the District had \$157,850 in energy conservation notes outstanding. Of this total, \$25,000 is due within one year and \$132,850 is due within greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2009</u>	<u>Governmental Activities 2008</u>
Energy conservation notes	<u>\$ 157,850</u>	<u>\$ 180,350</u>
Total	<u>\$ 157,850</u>	<u>\$ 180,350</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, 2009**

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 mill operating levy in November 2004 and a 4.8 mill operating levy in November 2005. In November 2006, the Board of Education replaced a 3.0 mills 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 mill 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 mills 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 41% of revenues for governmental activities for the Hillsdale Local District in year 2009.

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, 2009, 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, 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, 2009

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 1,707,788
Cash with fiscal agent	1,232,277
Receivables:	
Taxes	4,203,343
Accounts	2,983
Intergovernmental	70,003
Prepayments	108,231
Materials and supplies inventory	11,130
Inventory held for resale	5,053
Capital assets:	
Land	51,970
Construction in progress	55,393
Depreciable capital assets, net	1,655,216
Total capital assets, net	<u>1,762,579</u>
 Total assets	 <u>9,103,387</u>
Liabilities:	
Accounts payable	23,457
Accrued wages and benefits	1,071,988
Pension obligation payable	207,929
Intergovernmental payable	36,731
Claims payable	287,435
Unearned revenue	2,763,474
Long-term liabilities:	
Due within one year	145,203
Due in more than one year	918,701
 Total liabilities	 <u>5,454,918</u>
Net assets:	
Invested in capital assets, net of related debt . . .	1,604,729
Restricted for:	
Capital projects	148,618
Locally funded programs	6,424
Federally funded programs	3,196
Student activities	32,743
Other purposes	44,760
Unrestricted	1,807,999
 Total net assets	 <u>\$ 3,648,469</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, 2009

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 4,563,721	\$ 418,593	\$ 22,152	\$ -	\$ (4,122,976)
Special	751,199	17,492	424,398	-	(309,309)
Vocational	396,829	-	67,291	-	(329,538)
Other	237,716	-	-	-	(237,716)
Support services:					
Pupil.	569,186	5,121	171,764	-	(392,301)
Instructional staff	319,412	-	35,137	-	(284,275)
Board of education	37,689	-	-	-	(37,689)
Administration.	844,418	66	30,496	-	(813,856)
Fiscal.	348,220	-	150	-	(348,070)
Operations and maintenance	679,077	-	868	-	(678,209)
Pupil transportation.	793,843	478	17,944	13,922	(761,499)
Central	9,000	-	9,000	-	-
Operation of non-instructional services:					
Food service operations	378,385	238,795	158,649	-	19,059
Other non-instructional services	782	-	-	-	(782)
Extracurricular activities.	409,778	180,172	1,348	-	(228,258)
Interest and fiscal charges	8,666	-	-	-	(8,666)
Total governmental activities	\$ 10,347,921	\$ 860,717	\$ 939,197	\$ 13,922	(8,534,085)
 General revenues:					
Property taxes levied for:					
General purposes					4,344,517
Capital projects					131,548
Grants and entitlements not restricted to specific programs					4,432,640
Investment earnings					64,550
Miscellaneous					56,767
Total general revenues					9,030,022
Change in net assets					495,937
Net assets at beginning of year					3,152,532
Net assets at end of year					\$ 3,648,469

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,507,999	\$ 199,789	\$ 1,707,788
Receivables:			
Taxes	4,023,340	180,003	4,203,343
Accounts	2,423	560	2,983
Intergovernmental	49,028	20,975	70,003
Interfund loan	868	-	868
Prepayments	101,948	6,283	108,231
Materials and supplies inventory	9,653	1,477	11,130
Inventory held for resale	-	5,053	5,053
Total assets	\$ 5,695,259	\$ 414,140	\$ 6,109,399
Liabilities:			
Accounts payable	\$ 8,584	\$ 14,873	\$ 23,457
Accrued wages and benefits	1,022,825	49,163	1,071,988
Compensated absences payable	18,742	-	18,742
Pension obligation payable	190,049	17,880	207,929
Interfund loan payable	-	868	868
Intergovernmental payable	35,322	1,409	36,731
Deferred revenue	271,744	11,043	282,787
Unearned revenue	2,540,146	115,096	2,655,242
Total liabilities	4,087,412	210,332	4,297,744
Fund balances:			
Reserved for encumbrances	145,012	30,603	175,615
Reserved for materials and supplies inventory	9,653	6,530	16,183
Reserved for property tax unavailable for appropriation	1,097,565	49,731	1,147,296
Reserved for prepayments	101,948	6,283	108,231
Unreserved, undesignated, reported in:			
General fund	253,669	-	253,669
Special revenue funds	-	42,243	42,243
Capital projects funds	-	68,418	68,418
Total fund balances	1,607,847	203,808	1,811,655
Total liabilities and fund balances	\$ 5,695,259	\$ 414,140	\$ 6,109,399

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, 2009

Total governmental fund balances		\$	1,811,655
<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.			1,762,579
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Intergovernmental receivable	\$	28,016	
Delinquent property taxes receivable		254,771	
Total			282,787
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.			836,610
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		(157,850)	
Compensated absences payable		(887,312)	
Total			(1,045,162)
Net assets of governmental activities		\$	3,648,469

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, 2009

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,478,440	\$ 129,349	\$ 4,607,789
Tuition.	378,926	-	378,926
Charges for services.	-	237,911	237,911
Earnings on investments.	25,794	-	25,794
Extracurricular.	-	183,628	183,628
Classroom materials and fees	19,157	26,697	45,854
Contributions and donations	1,150	23,998	25,148
Other local revenues.	6,986	49,933	56,919
Intergovernmental - Intermediate	-	13,096	13,096
Intergovernmental - State	4,770,947	54,004	4,824,951
Intergovernmental - Federal	-	509,117	509,117
Total revenue	<u>9,681,400</u>	<u>1,227,733</u>	<u>10,909,133</u>
Expenditures:			
Current:			
Instruction:			
Regular	4,297,785	72,829	4,370,614
Special.	596,141	126,701	722,842
Vocational.	365,464	4,050	369,514
Other	237,716	-	237,716
Support services:			
Pupil.	354,137	196,967	551,104
Instructional staff	265,503	31,346	296,849
Board of education	32,208	-	32,208
Administration.	783,278	31,247	814,525
Fiscal	344,766	2,685	347,451
Operations and maintenance.	655,657	959	656,616
Pupil transportation	653,862	250	654,112
Central.	-	9,000	9,000
Operation of non-instructional services:			
Food service operations	-	360,955	360,955
Other non-instructional services	782	-	782
Extracurricular activities.	230,140	181,781	411,921
Facilities acquisition and construction	-	101,779	101,779
Debt service:			
Principal retirement	-	22,500	22,500
Interest and fiscal charges	-	8,666	8,666
Total expenditures	<u>8,817,439</u>	<u>1,151,715</u>	<u>9,969,154</u>
Excess of revenues over expenditures.	<u>863,961</u>	<u>76,018</u>	<u>939,979</u>
Other financing sources (uses):			
Sale of assets.	2,118	-	2,118
Transfers in	-	31,166	31,166
Transfers (out).	(31,166)	-	(31,166)
Total other financing sources (uses)	<u>(29,048)</u>	<u>31,166</u>	<u>2,118</u>
Net change in fund balances	834,913	107,184	942,097
Fund balances at beginning of year.	<u>772,934</u>	<u>96,624</u>	<u>869,558</u>
Fund balances at end of year	<u>\$ 1,607,847</u>	<u>\$ 203,808</u>	<u>\$ 1,811,655</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, 2009

Net change in fund balances - total governmental funds:	\$	942,097
 <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	\$ 156,623	
Current year depreciation expense	(154,085)	
Total		2,538
 The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(7,324)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	(131,724)	
Intergovernmental	27,693	
Total		(104,031)
 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 expense of the internal service fund is allocated among governmental activities.		
		(336,621)
 Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		22,500
 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.		
		(23,222)
Change in net assets of governmental activities	\$	495,937

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 4,013,468	\$ 4,039,869	\$ 4,039,870	\$ 1
Tuition.	376,451	378,927	378,926	(1)
Earnings on investments.	25,538	25,706	25,794	88
Classroom materials and fees	20,374	20,508	20,509	1
Contributions and donations	1,142	1,150	1,150	-
Other local revenues.	8,202	8,256	8,708	452
Intergovernmental - State	4,718,684	4,749,724	4,749,935	211
Total revenue	<u>9,163,859</u>	<u>9,224,140</u>	<u>9,224,892</u>	<u>752</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,469,456	4,378,297	4,308,928	69,369
Special.	741,164	726,047	706,629	19,418
Vocational.	379,010	371,280	362,907	8,373
Other	242,675	237,725	237,716	9
Support services:				
Pupil.	431,230	422,435	355,933	66,502
Instructional staff	326,746	320,082	267,190	52,892
Board of education	61,206	59,958	34,275	25,683
Administration.	811,292	794,745	771,029	23,716
Fiscal	365,409	357,956	331,819	26,137
Operations and maintenance.	753,864	738,488	649,480	89,008
Pupil transportation	754,734	739,340	651,184	88,156
Central.	102	100	-	100
Operation of non-instructional services	2,552	2,500	782	1,718
Extracurricular activities.	235,487	230,684	230,066	618
Facilities acquisition and construction.	20,416	20,000	20,000	-
Total expenditures	<u>9,595,343</u>	<u>9,399,637</u>	<u>8,927,938</u>	<u>471,699</u>
Excess of revenues over (under) expenditures.	<u>(431,484)</u>	<u>(175,497)</u>	<u>296,954</u>	<u>472,451</u>
Other financing sources (uses):				
Refund of prior year expenditure	10,523	10,592	10,592	-
Refund of prior year receipts	(510)	(500)	(437)	63
Transfers (out)	(31,819)	(31,170)	(31,166)	4
Advances in.	51,045	51,381	51,381	-
Advances (out)	(61,249)	(60,000)	(869)	59,131
Contingencies	(116,971)	(114,585)	-	114,585
Sale of assets.	2,104	2,118	2,118	-
Total other financing sources (uses)	<u>(146,877)</u>	<u>(142,164)</u>	<u>31,619</u>	<u>173,783</u>
Net change in fund balance	(578,361)	(317,661)	328,573	646,234
Fund balance at beginning of year.	895,880	895,880	895,880	-
Prior year encumbrances appropriated	134,517	134,517	134,517	-
Fund balance at end of year	<u>\$ 452,036</u>	<u>\$ 712,736</u>	<u>\$ 1,358,970</u>	<u>\$ 646,234</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 1,232,277
Total assets	1,232,277
Liabilities:	
Claims payable	287,435
Unearned revenue	108,232
Total liabilities	395,667
Net assets:	
Unrestricted.	836,610
Total net assets	\$ 836,610

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, 2009

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 1,000,734
Total operating revenues	<u>1,000,734</u>
Operating expenses:	
Fringe benefits.	330,253
Claims.	1,045,858
Total operating expenses	<u>1,376,111</u>
Operating loss	<u>(375,377)</u>
Nonoperating revenues:	
Interest revenue.	<u>38,756</u>
Total nonoperating revenues	<u>38,756</u>
Change in net assets.	(336,621)
Net assets at beginning of year	<u>1,173,231</u>
Net assets at end of year	<u><u>\$ 836,610</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, 2009

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,011,044
Cash payments for fringe benefits.	(330,253)
Cash payments for claims.	<u>(1,070,229)</u>
Net cash used in operating activities	<u>(389,438)</u>
Cash flows from investing activities:	
Interest received	<u>38,756</u>
Net cash provided by investing activities	<u>38,756</u>
Net decrease in cash with fiscal agent	(350,682)
Cash with fiscal agent at beginning of year. . .	<u>1,582,959</u>
Cash with fiscal agent at end of year	<u><u>\$ 1,232,277</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss.	\$ (375,377)
Changes in assets and liabilities:	
Decrease in claims payable	(24,371)
Increase in unearned revenue.	<u>10,310</u>
Net cash used in operating activities	<u><u>\$ (389,438)</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, 2009

	Private-Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 8,376	\$ 20,456
Receivables:		
Accounts	-	40
Total assets	8,376	\$ 20,496
Liabilities:		
Accounts payable	-	1,580
Due to students	-	18,916
Total liabilities	-	\$ 20,496
Net assets:		
Held in trust for scholarships	8,376	
Total net assets	\$ 8,376	

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, 2009

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 106
Total additions.	106
Deductions:	
Scholarships awarded	74
Change in net assets	32
Net assets at beginning of year	8,344
Net assets at end of year	\$ 8,376

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, 2009**

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 460th largest by enrollment among the 922 public school districts and community schools in the State. The District employs 52 non-certified and 82 certified full-time and part-time employees to provide services to 1,093 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 and component units. 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. 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, 2009

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, 2009, the District paid \$72,183 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
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009

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 revenue 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, 2009

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 Nonexchange 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, 2009, but which were levied to finance fiscal year 2010 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, 2009 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, 2009

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, 2009**

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

During fiscal year 2009, 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, 2009.

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 2009 amounted to \$25,794, which includes \$3,666 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 and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

**HILLSDALE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009

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. Net assets restricted for other purposes consist of amounts restricted for uniform school supplies and public school support.

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, 2009

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, 2009.

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 2009.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2009, the District has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the District.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the District.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 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, 2009**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2009 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 19,021
Entry year programs	7
Vocational education enhancement	12
Title I	1,850

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.

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;
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;

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 fiscal 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".

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, 2009 was \$1,232,277. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all District deposits was \$(93,064). A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the “zero-balance” nature of the District’s bank accounts. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2009, all of the District’s bank balance of \$137,624 was covered by the FDIC.

D. Investments

As of June 30, 2009, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 1,829,559	\$ 1,829,559
Total	<u>\$ 1,829,559</u>	<u>\$ 1,829,559</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 carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

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, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 1,829,559	100.00
Total	<u>\$ 1,829,559</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (93,064)
Investments	1,829,559
Cash with fiscal agent	1,232,277
Cash on hand	<u>125</u>
Total	<u>\$ 2,968,897</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,940,065
Private-purpose trust fund	8,376
Agency funds	<u>20,456</u>
Total	<u>\$ 2,968,897</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2009 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>\$ 868</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.

- B.** Interfund transfers for the fiscal year ended June 30, 2009, 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>\$ 31,166</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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 property, public utility property and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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.

The District receives property taxes from Ashland and Wayne Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available as an advance at June 30, 2009 was \$1,097,565 in the general fund and \$49,731 in the permanent improvement fund (a nonmajor governmental fund). These amounts are recorded as revenue. The amount available for advance at June 30, 2008 was \$800,896 in the general fund and \$18,756 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2009 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 the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second Half Collections		2009 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 116,141,350	86.80	\$ 127,171,889	88.60
Public utility personal	15,854,000	11.85	16,316,410	11.40
Tangible personal property	<u>1,812,250</u>	<u>1.35</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 133,807,600</u>	<u>100.00</u>	<u>\$ 143,488,299</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$49.40		\$49.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2009 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:

Governmental activities:	
Taxes	\$ 4,203,343
Accounts	2,983
Intergovernmental	<u>70,003</u>
Total	<u>\$ 4,276,329</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

Governmental activities:	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2009</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 51,970	\$ -	\$ -	\$ 51,970
Construction in progress	<u>-</u>	<u>55,393</u>	<u>-</u>	<u>55,393</u>
Total capital assets, not being depreciated	<u>51,970</u>	<u>55,393</u>	<u>-</u>	<u>107,363</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	304,686	-	-	304,686
Buildings and improvements	2,627,182	63,575	-	2,690,757
Furniture and equipment	954,784	21,195	(4,103)	971,876
Vehicles	855,898	-	(21,500)	834,398
Infrastructure	10,855	16,460	(3,058)	24,257
Textbooks	<u>532,988</u>	<u>-</u>	<u>-</u>	<u>532,988</u>
Total capital assets, being depreciated	<u>5,286,393</u>	<u>101,230</u>	<u>(28,661)</u>	<u>5,358,962</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(156,601)	(3,487)	-	(160,088)
Buildings and improvements	(1,750,382)	(14,533)	-	(1,764,915)
Furniture and equipment	(663,758)	(50,014)	3,693	(710,079)
Vehicles	(534,989)	(68,019)	14,892	(588,116)
Infrastructure	(9,770)	(550)	2,752	(7,568)
Textbooks	<u>(455,498)</u>	<u>(17,482)</u>	<u>-</u>	<u>(472,980)</u>
Total accumulated depreciation	<u>(3,570,998)</u>	<u>(154,085)</u>	<u>21,337</u>	<u>(3,703,746)</u>
Governmental activities capital assets, net	<u>\$ 1,767,365</u>	<u>\$ 2,538</u>	<u>\$ (7,324)</u>	<u>\$ 1,762,579</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 34,371
Special	1,101
Vocational	1,000
<u>Support services:</u>	
Instructional staff	11,702
Administration	198
Operations and maintenance	20,202
Pupil transportation	77,665
Extracurricular activities	1,103
Food service operations	<u>6,743</u>
Total depreciation expense	<u>\$ 154,085</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2009, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2009</u>	Amounts Due in <u>One Year</u>
2000 Energy conservation notes: \$287,000, 5.125% interest rate, matures December 31, 2013	\$ 180,350	\$ -	\$ (22,500)	\$ 157,850	\$ 25,000
Compensated absences	<u>918,255</u>	<u>70,010</u>	<u>(82,211)</u>	<u>906,054</u>	<u>120,203</u>
Total governmental activities	<u>\$ 1,098,605</u>	<u>\$ 70,010</u>	<u>\$ (104,711)</u>	<u>\$ 1,063,904</u>	<u>\$ 145,203</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 employees' 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, 2009, are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Energy Conservation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 157,850</u>	<u>\$ 22,183</u>	<u>\$ 180,033</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009, are a voted debt margin of \$12,913,343 and an unvoted debt margin of \$143,482.

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. During fiscal year 2009, the District contracted for the following insurance coverage.

Coverage provided by the Ohio School Plan is as follows:

General Liability	
General Aggregate Limit	\$ 7,000,000
Blanket Property (\$1,000 deductible)	24,955,033
Vehicle Liability	5,000,000
Uninsured/Underinsured Motorists	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2009, the District participated in the Ohio School Plan ("the Plan"), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. For fiscal year 2009, 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".

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 OME-RESA Health Benefits Program, a partially self-insured consortium of public employers in Ohio. The consortium has over 100 member organizations participating. Monthly accruals are paid to a custodian bank, U.S. Bank, acting as trustee on behalf of the fiscal agent. The trustees disburse payments to vendors for services rendered and to satisfy claim reimbursements for covered plan participants. The Jefferson County ESC acts in the role of fiscal agent for the consortium.

The claims liability of \$287,435 reported in the internal service fund at June 30, 2009 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>
2009	\$ 311,806	\$ 1,045,858	\$ (1,070,229)	\$ 287,435
2008	293,196	829,080	(810,470)	311,806

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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*.

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 2009, 9.09 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, 2009, 2008 and 2007 were \$91,364, \$86,444 and \$90,147, respectively; 43.77 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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 website at www.strsoh.org.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 11 - PENSION PLANS - (Continued)

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 2009, 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.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$585,535, \$554,384 and \$538,733, respectively; 82.79 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$3,811 made by the District and \$11,814 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, 2009, 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 105(e). For 2009, 4.16 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 2009, the actuarially determined amount was \$35,800.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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 (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$60,715, \$57,730 and \$47,929, respectively; 43.77 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$7,538, \$6,228 and \$6,130, respectively; 43.77 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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 2009, 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, 2009, 2008, and 2007 were \$45,041, \$42,645 and \$41,441, respectively; 82.79 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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 revenues, 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);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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) Advance-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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	\$ 328,573
Net adjustment for revenue accruals	456,508
Net adjustment for expenditure accruals	(38,530)
Net adjustment for other sources/uses	(60,667)
Adjustment for encumbrances	149,029
GAAP basis	\$ 834,913

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, 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2008	\$ (576,890)	\$ -
Current year set-aside requirement	166,162	166,162
Current year offsets	-	(116,745)
Qualifying disbursements	<u>(220,309)</u>	<u>(62,384)</u>
Total	<u>\$ (631,037)</u>	<u>\$ (12,967)</u>
Balance carried forward to fiscal year 2010	<u>\$ (631,037)</u>	<u>\$ -</u>

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, 2009**

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				
(B) National School Lunch Program	10.555	2009	\$ 130,792	\$ 130,792
(A) National School Lunch Program / Food Donation	10.555	2009	24,884	24,884
Total National School Lunch Program			<u>155,676</u>	<u>155,676</u>
Total U.S. Department of Agriculture			<u>155,676</u>	<u>155,676</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
(E), (F) Title I Grants to Local Educational Agencies	84.010	2008	8,968	18,265
(E) Title I Grants to Local Educational Agencies	84.010	2009	108,890	108,890
Total Title I Grants to Local Educational Agencies			<u>117,858</u>	<u>127,155</u>
Special Education_Grants to States	84.027	2009	179,171	179,171
Total Special Education Grants to State			<u>179,171</u>	<u>179,171</u>
(F) Safe and Drug-Free Schools and Communities_State Grants	84.186	2008	(131)	500
(F) Safe and Drug-Free Schools and Communities_State Grants	84.186	2009	4,502	4,806
Total Safe and Drug-Free Schools and Communities_State Grants			<u>4,371</u>	<u>5,306</u>
(E), (F) State Grants for Innovative Programs	84.298	2008	(3,232)	-
(E), (F) State Grants for Innovative Programs	84.298	2009	8,591	6,499
Total State Grants for Innovative Programs			<u>5,359</u>	<u>6,499</u>
(E) Education Technology State Grants	84.318	2008	(848)	-
(E), (F) Education Technology State Grants	84.318	2009	4,650	3,607
Total Educational Technology State Grants			<u>3,802</u>	<u>3,607</u>
(E), (F) Improving Teacher Quality State Grants	84.367	2008	8,181	77
(E), (F) Improving Teacher Quality State Grants	84.367	2009	29,319	28,753
Total Improving Teacher Quality State Grants			<u>37,500</u>	<u>28,830</u>
Total U.S. Department of Education			<u>348,061</u>	<u>350,568</u>
Total Federal Financial Assistance			<u>\$ 503,737</u>	<u>\$ 506,244</u>

Continued -

**HILLSDALE LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

- (A) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at the entitlement value.
 (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 2009.
 (E) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and 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 can 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 2009, the ODE authorized the following transfers:

Program Title	CFDA Number	Grant Year	Transfers Out	Transfers In
Title I Grants to Local Educational Agencies	84.010	2008	1,498	
Title I Grants to Local Educational Agencies	84.010	2009		1,498
State Grants for Innovative Programs	84.298	2008	658	
State Grants for Innovative Programs	84.298	2009		658
Education Technology State Grants	84.318	2008	35	
Education Technology State Grants	84.318	2009		35
Improving Teacher Quality State Grants	84.367	2008	653	
Improving Teacher Quality State Grants	84.367	2009		653
Totals			<u>\$ 2,844</u>	<u>\$ 2,844</u>

- (F) The following amounts were transferred between grants based on ODE administrative action and transferability guidelines during fiscal year 2009:

Program Title	CFDA Number	Grant Year	Transfers Out	Transfers In
Title I Grants to Local Educational Agencies	84.010	2008	534	
Improving Teacher Quality State Grants	84.367	2008		534
State Grants for Innovative Programs	84.298	2008	2,574	
Improving Teacher Quality State Grants	84.367	2008		2,574
Safe and Drug Free Schools and Communities State Grants	84.186	2008	454	
Improving Teacher Quality State Grants	84.367	2008		454
Improving Teacher Quality State Grants	84.367	2009	6,579	
State Grants for Innovative Programs	84.298	2009		6,579
Improving Teacher Quality State Grants	84.367	2009	1,218	
Safe and Drug Free Schools and Communities State Grants	84.186	2009		1,218
Improving Teacher Quality State Grants	84.367	2009	3,300	
Education Technology State Grants	84.318	2009		3,300
Totals			<u>\$ 14,659</u>	<u>\$ 14,659</u>



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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, 2009, which collectively comprise Hillsdale Local School District's basic financial statements and have issued our report thereon dated November 23, 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, other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 23, 2009



Julian & Grube, Inc. *Serving Ohio Local Governments*

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, 2009. 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, 2009.

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, other federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 23, 2009

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

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
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None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



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Independent Accountant's Report on Applying Agreed-Upon Procedures

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840-9754

To the Board of Education:

Ohio Revised Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Ohio Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school”.

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating Hillsdale Local School District has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on May 14, 2008.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Revised Code Section 3313.666;

- (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Ohio Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - (6) A procedure for documenting any prohibited incident that is reported;
 - (7) A procedure for responding to and investigating any reported incident;
 - (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
 - (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States.
3. We read the policy and noted that it did not contain the following procedure in accordance with Ohio Revised Code Section 3313.666(B):
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Ohio Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education of Hillsdale Local School District and is not intended to be and should not be used by anyone other than this specified party.



Julian & Grube, Inc.
November 23, 2009



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
JANUARY 5, 2010