



Mary Taylor, CPA
Auditor of State



Dave Yost • Auditor of State

March 31, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Reports completed prior to that date contain the signature of my predecessor.

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

DAVE YOST
Auditor of State

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Harrison Hills City School District
Harrison County
P.O. Box 356
Hopedale, OH 43976

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, Ohio (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 to the financial statements, the District was declared to be in fiscal caution on May 20, 2010 under the criteria established by Ohio Revised Code Section 3316.03(A). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require this presentation to include Management's Discussion and Analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operation, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us sufficient evidence to express an opinion or provide any other assurance.

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



Mary Taylor, CPA
Auditor of State

December 30, 2010

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The discussion and analysis of the Harrison Hills City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. 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 fiscal year 2010 are as follows:

- In total, net assets of governmental activities decreased \$929,432 which represents a 9.65% decrease from 2009.
- General revenues accounted for \$15,655,297 in revenue or 79.57% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$4,018,650 or 20.43% of total revenues of \$19,673,947.
- The District had \$20,603,379 in expenses related to governmental activities; \$4,018,650 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,655,297 were not adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$15,769,510 in revenues and \$16,056,009 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund balance decreased \$375,256 from \$2,195,726 to \$1,820,470.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand 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 2010?"

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.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

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 15-16 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 fund. 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 17-21 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 medical/surgical and dental benefits self-insurance. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

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 27-54 of this report.

The District as a Whole

The table below provides a summary of the District's net assets at June 30, 2010 and June 30, 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 11,346,181	\$ 12,217,925
Capital assets, net	<u>4,657,665</u>	<u>4,194,767</u>
Total assets	<u>16,003,846</u>	<u>16,412,692</u>
<u>Liabilities</u>		
Current liabilities	6,388,489	5,797,095
Long-term liabilities	<u>917,053</u>	<u>987,861</u>
Total liabilities	<u>7,305,542</u>	<u>6,784,956</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,657,665	4,180,691
Restricted	1,648,318	2,367,084
Unrestricted	<u>2,392,321</u>	<u>3,079,961</u>
Total net assets	<u>\$ 8,698,304</u>	<u>\$ 9,627,736</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$8,698,304. Of this total, \$2,392,321 is unrestricted in use.

At year-end, capital assets represented 29.10% of total assets. Capital assets include land, land improvements, infrastructure, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of accumulated depreciation at June 30, 2010, were \$4,657,665. These capital assets are used to provide services to the students and are not available for future spending.

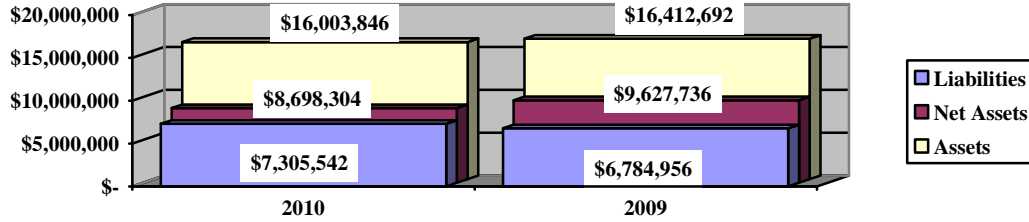
A portion of the District's net assets, \$1,648,318, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,392,321 may be used to meet the District's ongoing obligations to the students and creditors.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The graph below presents the District's assets, liabilities, and net assets at June 30, 2010 and June 30, 2009.

Governmental Activities



The table below shows the change in net assets for fiscal years 2010 and 2009.

	Change in Net Assets	
	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 526,358	\$ 643,119
Operating grants and contributions	3,492,292	3,507,221
Capital grants and contributions	-	44,284
General revenues:		
Property taxes	3,838,242	4,573,337
Grants and entitlements	11,628,560	10,739,356
Investment earnings	69,904	165,594
Other	<u>118,591</u>	<u>17,843</u>
Total revenues	<u>19,673,947</u>	<u>19,690,754</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2010</u>	<u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,103,768	\$ 9,116,765
Special	1,951,966	2,368,023
Vocational	470,583	383,441
Other	652,141	79,513
Support services:		
Pupil	1,068,921	984,349
Instructional staff	639,217	521,111
Board of education	151,249	210,508
Administration	1,428,232	1,427,723
Fiscal	546,182	530,038
Operations and maintenance	1,325,358	1,311,083
Pupil transportation	1,534,917	1,515,775
Central	281,317	328,929
Operation of non-instructional services:		
Food service operations	775,029	918,629
Other non-instructional services	318,777	45,465
Extracurricular activities	355,600	350,195
Interest and fiscal charges	<u>122</u>	<u>1,510</u>
Total expenses	<u>20,603,379</u>	<u>20,093,057</u>
Change in net assets	(929,432)	(402,303)
Net assets at beginning of year	<u>9,627,736</u>	<u>10,030,039</u>
Net assets at end of year	<u>\$ 8,698,304</u>	<u>\$ 9,627,736</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$929,432. Total governmental expenses of \$20,603,379 were offset by program revenues of \$4,018,650 and general revenues of \$15,655,297. Program revenues supported 19.50% 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 78.62 % of total governmental revenue.

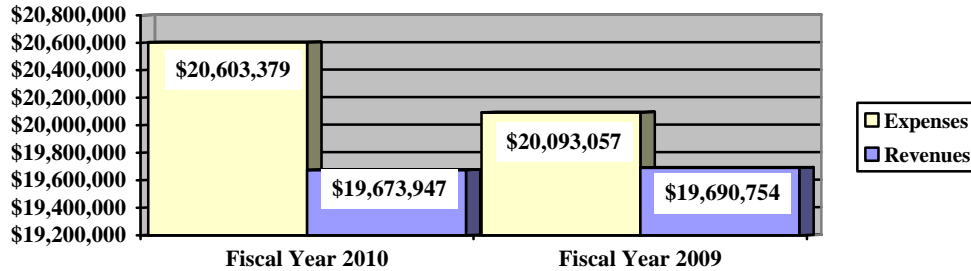
The largest expense of the District is for instructional programs. Instruction expenses totaled \$12,178,458 or 59.11% of total governmental expenses for fiscal year 2010.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.

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>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program expenses				
Instruction:				
Regular	\$ 9,103,768	\$ 7,915,600	\$ 9,116,765	\$ 8,199,704
Special	1,951,966	1,394,802	2,368,023	930,319
Vocational	470,583	331,344	383,441	245,852
Other	652,141	68,803	79,513	45,026
Support services:				
Pupil	1,068,921	861,163	984,349	711,305
Instructional staff	639,217	447,004	521,111	383,698
Board of education	151,249	151,249	210,508	210,508
Administration	1,428,232	1,322,664	1,427,723	1,336,845
Fiscal	546,182	546,182	530,038	530,038
Operations and maintenance	1,325,358	1,313,283	1,311,083	1,311,083
Pupil transportation	1,534,917	1,479,986	1,515,775	1,399,938
Central	281,317	281,317	328,929	324,125
Operations of non-instructional services:				
Food service operations	775,029	(30,436)	918,629	120,216
Other non-instructional services	318,777	318,777	45,465	8,164
Extracurricular activities	355,600	182,869	350,195	140,102
Interest and fiscal charges	<u>122</u>	<u>122</u>	<u>1,510</u>	<u>1,510</u>
Total expenses	<u>\$ 20,603,379</u>	<u>\$ 16,584,729</u>	<u>\$ 20,093,057</u>	<u>\$ 15,898,433</u>

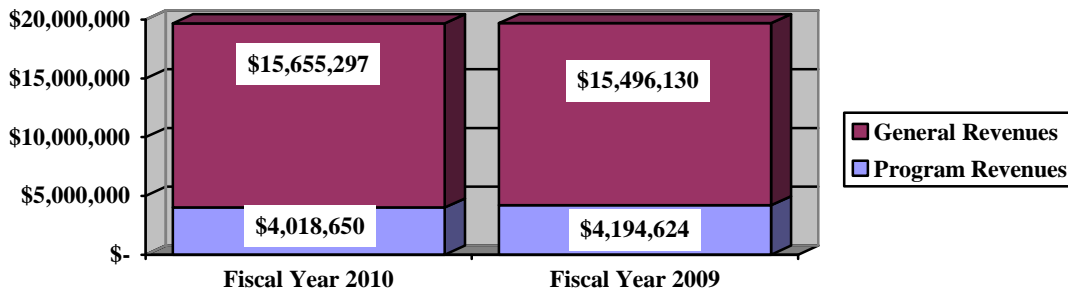
**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 79.74 % of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.50%.

The graph below presents the District's governmental activities revenue for fiscal years 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,960,601, which is lower than last year's total of \$3,340,557. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and June 30, 2009.

	Fund Balance June 30, 2010	Fund Balance June 30, 2009	(Decrease)	Percentage Change
General	\$ 1,820,470	\$ 2,195,726	\$ (375,256)	(17.09) %
Other Governmental	140,131	1,144,831	(1,004,700)	(87.76) %
Total	<u>\$ 1,960,601</u>	<u>\$ 3,340,557</u>	<u>\$ (1,379,956)</u>	(41.31) %

An analysis of the general fund revenues and expenditures is provided in the section below. The decrease in the fund balances of the other governmental funds is primarily due to a fund balance decrease of \$522,132 in the permanent improvement fund.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

General Fund

The District's general fund balance decreased \$375,256. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,616,082	\$ 4,084,056	\$ (467,974)	(11.46) %
Earnings on investments	13,054	121,191	(108,137)	(89.23) %
Extracurricular	5,292	9,774	(4,482)	(45.86) %
Intergovernmental	11,865,706	11,474,084	391,622	3.41 %
Other revenues	<u>269,376</u>	<u>155,508</u>	<u>113,868</u>	73.22 %
Total	<u>\$ 15,769,510</u>	<u>\$ 15,844,613</u>	<u>\$ (75,103)</u>	(0.47) %
<u>Expenditures</u>				
Instruction	\$ 9,263,184	\$ 10,230,307	\$ (967,123)	(9.45) %
Support services	6,239,539	6,067,615	171,924	2.83 %
Non-instructional services	306,554	44,885	261,669	18.17 %
Extracurricular activities	159,167	145,424	13,743	9.45 %
Facilities acquisition and construction	73,265	512,127	(438,862)	(85.69) %
Debt service	<u>14,198</u>	<u>42,594</u>	<u>(28,396)</u>	(66.67) %
Total	<u>\$ 16,055,907</u>	<u>\$ 17,042,952</u>	<u>\$ (987,045)</u>	(5.79) %

Overall revenues in the general fund decreased \$75,103 or 0.47%. The decrease in investments is due in part to the declining interest rate and funds that were available to invest. Tax revenues decreased 11.46%. Taxes decreased mainly due to the phase out of tangible personal property taxes through 2010. Extracurricular and other revenues will vary from year to year, largely in part due to fees and bill backs for services.

Expenditures of the general fund increased in all areas except instruction and facilities, acquisition and construction. Facilities acquisition and construction will vary from year due to monies that are available for repairs and upgrades of the buildings.

General Fund Budgeting Highlights

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

During the course of fiscal year 2010, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$15,884,541 and final budgeted revenues and other financing sources were \$16,622,870. Actual revenues and other financing sources for fiscal year 2010 were \$16,639,270. This represents a \$16,400 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$18,421,659, which were increased to \$18,983,230 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$17,558,828, which were \$1,424,402 less than the final budget appropriations

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$4,657,665 invested in land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows June 30, 2010 balances compared to June 30, 2009:

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

	Governmental Activities	
	2010	2009
Land	\$ 15,067	\$ 15,067
Land improvement	301,676	97,066
Building and improvements	2,954,255	2,941,936
Furniture and equipment	540,730	434,916
Vehicles	845,937	705,782
	<u>\$ 4,657,665</u>	<u>\$ 4,194,767</u>

The overall increase in capital assets of \$462,898 is due to capital outlays of \$1,375,327 exceeding depreciation expense of \$872,235 and the disposal of \$289,302 in capital assets exceeding their associated accumulated depreciation of \$249,108 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

The District made the final payment on a capital lease during fiscal year 2010. The District had no other debt outstanding at June 30, 2010. See Note 9 to the basic financial statements for additional information on the District's capital leases.

At June 30, 2010, the District's overall legal debt margin was \$19,256,488 with an unvoted debt margin of \$213,961.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

As the Board of Education continues to accomplish and set new goals, stated in the District's Continuous Improvement Plan (CIP), meeting the needs of the students continues to be their priority. Through the Ohio Improvement Process, the district is able to collect data to establish the needs of the district. The CIP is then developed based off these needs. The CIP has been instrumental in helping the District to plan financially in order to improve academics, maintain buildings and grounds, and other areas related to the District's operations.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

In order to achieve these goals, it has been important that a high standard of accountability be continued and prudent fiscal management maintained.

The District was successful in ending the 2010 fiscal year in the black. However, due to expenditures continuing to exceed revenue, the Board of Education took action to close three buildings in the District on July 1, 2010. This was done to eliminate a projected deficit in fiscal years 2011 and 2012. In addition, the District was placed in fiscal caution May 20, 2010 and the closing of buildings was also an attempt to remove the District from the fiscal caution status. It is anticipated that the District will be able to end the FY 2011 in the black. This is based on historical, current trend and what is known at this time. However, beyond that it is questionable and unpredictable. Therefore, the Board of Education and Administration will continue to closely monitor its revenues and expenditures. Additional cuts are a possibility if the revenue for the District does not improve. This will be done in order to help bring expenditures more in line with the revenue. The Board of Education may also consider some type of tax levy.

The District was in the first year of the State's biennial budget. State stabilization funds were used to "supplant" the foundation program for this biennial budget. Schools are being told that after fiscal year 2011 these funds will not be replaced. In addition, school districts are also being told to reduce foundation monies by an additional 5% to 10% for fiscal year 2012.

School funding is still a major concern for all school districts. The Ohio Supreme Court ruled in March 1997 said that the State of Ohio was operating an unconstitutional educational system. They deemed this system to be neither "adequate" nor "equitable." Even though a new model of funding was implemented during fiscal year 2010, this could change again dependent on who is elected as governor in November of 2010. Therefore, the funding of public schools could be in jeopardy.

The Ohio School Facilities Commission (OSFC) sent a team into the District to evaluate the District's school buildings in 2002. It was determined that all the buildings needed replaced. The District began working with the OSFC and was approved, as an exceptional needs District. The District would have been required to provide approximately 35% while the State would provide approximately 65% of the funds needed to replace the District's buildings. However, the District was not successful on its attempt on the ballot, November 2003, to get a bond levy passed for the District's share. We once again began working with the OSFC and developed a plan that combined three programs for funding. This time an income tax was placed on the ballot in March of 2004 to fund the District's portion of the project. However, it was not successful. The focus of the Board of Education had to switch to getting the permanent improvement levy renewed. Since we were successful in renewing the permanent improvement levy during fiscal year 2005, the Board and Administration once again began working with the OSFC. The District was approved in fiscal year 2006 to enter into the building project under the Classroom Facilities Assistance Program (CFAP). This time the State will fund 75% while the District will need to pass a bond issue to fund 25% of the project. However, after three attempts, the District was unsuccessful: therefore, the focus will be to make necessary improvements to enhance the safety and learning environment of its students and staff. During fiscal year 2011, the District entered into a House Bill 264 (H.B. 264) project. The H.B. 264 project is for a lighting retrofit at the JR/SR High School and a lighting upgrade at Harrison East. In addition, steam traps will be replaced at the JR/SR High School. Funds will continually be utilized from the District's permanent improvement fund and the general capital improvement set aside fund.

Revenues overall did show an increase of 2.5% from fiscal year 2009 to fiscal year 2010; however, this was due to the increased revenue in federal programs. The District received \$770,849 in stimulus monies during fiscal year 2010.

Overall, expenditures increased by .30%. Expenditures increased slightly in support services and other non-instructional services. Even with the greater increase in revenues than increase in expenditures, expenditures continue to exceed revenue. The District will continue to identify areas that can be reduced.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The Board of Education and Administration will continue to carefully and prudently manage the District's resources in order to continue to meet the growing needs of its students. At the same time, the financial condition of the District will be monitored closely.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Roxane Harding, Treasurer, Harrison Hills City School District, P.O. Box 356 - Normal Street, Hopedale, Ohio 43976-0356.

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,352,189
Cash with fiscal agent	2,254,564
Investments.	99,228
Receivables:	
Taxes	5,162,300
Accounts.	10,073
Intergovernmental	305,002
Prepayments	106,718
Materials and supplies inventory.	56,107
Capital assets:	
Land	15,067
Depreciable capital assets, net.	4,642,598
Capital assets, net.	<u>4,657,665</u>
 Total assets.	 <u>16,003,846</u>
Liabilities:	
Accounts payable.	107,571
Contracts payable.	10,932
Accrued wages and benefits	1,386,728
Pension obligation payable.	372,085
Intergovernmental payable	106,846
Unearned revenue	4,021,321
Claims payable.	383,006
Long-term liabilities:	
Due within one year.	174,893
Due in more than one year	742,160
 Total liabilities	 <u>7,305,542</u>
Net Assets:	
Invested in capital assets	4,657,665
Restricted for:	
Capital projects	473,705
Endowment:	
Expendable	43,919
Nonexpendable	289,934
Federally funded programs	8,643
State funded programs.	55,685
Other purposes	776,432
Unrestricted.	<u>2,392,321</u>
 Total net assets	 <u>\$ 8,698,304</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 9,103,768	\$ 149,336	\$ 1,038,832	\$ (7,915,600)
Special	1,951,966	455	556,709	(1,394,802)
Vocational	470,583	-	139,239	(331,344)
Other	652,141	-	583,338	(68,803)
Support services:				
Pupil	1,068,921	-	207,758	(861,163)
Instructional staff	639,217	2,863	189,350	(447,004)
Board of education	151,249	-	-	(151,249)
Administration	1,428,232	-	105,568	(1,322,664)
Fiscal	546,182	-	-	(546,182)
Operations and maintenance	1,325,358	12,075	-	(1,313,283)
Pupil transportation	1,534,917	-	54,931	(1,479,986)
Central	281,317	-	-	(281,317)
Operation of non-instructional services:				
Food service operations	775,029	213,540	591,925	30,436
Other non-instructional services	318,777	-	-	(318,777)
Extracurricular activities	355,600	148,089	24,642	(182,869)
Interest and fiscal charges	122	-	-	(122)
Totals	\$ 20,603,379	\$ 526,358	\$ 3,492,292	(16,584,729)
General Revenues:				
Property taxes levied for:				
General purposes				3,510,664
Capital projects				327,578
Grants and entitlements not restricted to specific programs				11,628,560
Investment earnings				69,904
Miscellaneous				118,591
Total general revenues				15,655,297
Change in net assets				(929,432)
Net assets at beginning of year				9,627,736
Net assets at end of year				\$ 8,698,304

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,432,632	\$ 1,233,491	\$ 2,666,123
Investments.	99,228	-	99,228
Receivables:			
Taxes.	4,777,665	384,635	5,162,300
Accounts.	9,488	585	10,073
Intergovernmental.	25,590	279,412	305,002
Interfund loans.	713,610	-	713,610
Prepayments.	104,637	2,081	106,718
Materials and supplies inventory.	35,576	20,531	56,107
Restricted assets:			
Equity in pooled cash and cash equivalents	686,066	-	686,066
Total assets	<u>\$ 7,884,492</u>	<u>\$ 1,920,735</u>	<u>\$ 9,805,227</u>
Liabilities:			
Accounts payable	\$ 72,237	\$ 35,334	\$ 107,571
Contracts payable.	-	10,932	10,932
Accrued wages and benefits.	1,101,472	285,256	1,386,728
Compensated absences payable	60,264	11,729	71,993
Pension obligation payable	297,911	74,174	372,085
Intergovernmental payable	59,934	46,912	106,846
Interfund loans payable.	-	713,610	713,610
Deferred revenue	756,338	297,202	1,053,540
Unearned revenue.	3,715,866	305,455	4,021,321
Total liabilities.	<u>6,064,022</u>	<u>1,780,604</u>	<u>7,844,626</u>
Fund Balances:			
Reserved for encumbrances	517,047	384,928	901,975
Reserved for materials and supplies inventory.	35,576	20,531	56,107
Reserved for prepayments	104,637	2,081	106,718
Reserved for property tax unavailable for appropriation	270,051	21,417	291,468
Reserved for BWC refunds	73,694	-	73,694
Reserved for textbooks.	610,950	-	610,950
Reserved for school bus purchases	1,422	-	1,422
Reserved for endowment	-	289,934	289,934
Unreserved:			
Designation for budget stabilization	78,109	-	78,109
Undesignated (deficit), reported in:			
General fund	128,984	-	128,984
Special revenue funds	-	(989,889)	(989,889)
Capital projects funds	-	367,210	367,210
Permanent fund.	-	43,919	43,919
Total fund balances	<u>1,820,470</u>	<u>140,131</u>	<u>1,960,601</u>
Total liabilities and fund balances	<u>\$ 7,884,492</u>	<u>\$ 1,920,735</u>	<u>\$ 9,805,227</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$	1,960,601
<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.			4,657,665
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	823,181	
Intergovernmental receivable		230,359	
Total			1,053,540
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			1,871,558
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			(845,060)
Net assets of governmental activities		\$	8,698,304

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 3,616,082	\$ 342,933	\$ 3,959,015
Tuition	128,148	-	128,148
Earnings on investments	13,054	635	13,689
Charges for services	-	213,540	213,540
Extracurricular	5,292	145,725	151,017
Classroom materials and fees	10,562	10,626	21,188
Other local revenues	130,666	30,912	161,578
Intergovernmental - state	11,865,706	163,266	12,028,972
Intergovernmental - federal	-	3,046,910	3,046,910
Total revenues	<u>15,769,510</u>	<u>3,954,547</u>	<u>19,724,057</u>
Expenditures:			
Current:			
Instruction:			
Regular	7,598,615	1,161,265	8,759,880
Special	1,208,073	639,656	1,847,729
Vocational	456,496	703	457,199
Other	-	652,141	652,141
Support services:			
Pupil	870,182	200,965	1,071,147
Instructional staff	394,297	226,947	621,244
Board of education	151,249	-	151,249
Administration	1,342,272	139,179	1,481,451
Fiscal	528,806	14,893	543,699
Operations and maintenance	1,307,979	-	1,307,979
Pupil transportation	1,376,865	282,230	1,659,095
Central	267,889	67,150	335,039
Operation of non-instructional services:			
Food service operations	-	775,151	775,151
Other non-instructional services	306,554	15,852	322,406
Extracurricular activities	159,167	186,147	345,314
Facilities acquisition and construction	73,265	596,407	669,672
Debt service:			
Principal retirement	14,076	-	14,076
Interest and fiscal charges	122	-	122
Total expenditures	<u>16,055,907</u>	<u>4,958,686</u>	<u>21,014,593</u>
Excess/deficiency of revenues over/under expenditures	<u>(286,397)</u>	<u>(1,004,139)</u>	<u>(1,290,536)</u>
Other financing sources (uses):			
Transfers in	-	102	102
Transfers (out)	(102)	-	(102)
Total other financing sources (uses)	<u>(102)</u>	<u>102</u>	<u>-</u>
Net change in fund balances	(286,499)	(1,004,037)	(1,290,536)
Fund balances at beginning of year	2,195,726	1,144,831	3,340,557
Decrease in reserve for inventory	(88,757)	(663)	(89,420)
Fund balances at end of year	<u>\$ 1,820,470</u>	<u>\$ 140,131</u>	<u>\$ 1,960,601</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON 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, 2010

Net change in fund balances - total governmental funds \$ (1,290,536)

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

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. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$	1,375,327	
Current year depreciation		<u>(872,235)</u>	
 Total			 503,092

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (40,194)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (89,420)

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

Taxes		(120,773)	
Intergovernmental		<u>14,029</u>	
 Total			 (106,744)

Repayments of capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 14,076

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. 66,964

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 13,330

Change in net assets of governmental activities \$ (929,432)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON 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, 2010

	<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	\$ 3,737,148	\$ 3,912,655	\$ 3,913,136	\$ 481
Tuition	122,299	127,050	128,058	1,008
Earnings on investments	26,659	26,000	27,914	1,914
Extracurricular	6,552	6,800	6,861	61
Classroom materials and fees	10,138	10,000	10,615	615
Contributions and donations	11,532	12,035	12,075	40
Contract services	5,456	5,712	5,713	1
Other local revenues	100,873	105,276	105,623	347
Intergovernmental - state	11,434,503	11,961,041	11,972,974	11,933
Total revenue	<u>15,455,160</u>	<u>16,166,569</u>	<u>16,182,969</u>	<u>16,400</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,218,034	8,437,739	7,795,683	642,056
Special	1,327,100	1,362,596	1,258,896	103,700
Vocational	494,552	507,779	469,135	38,644
Other	192	197	182	15
Support services:				
Pupil	894,622	918,550	848,644	69,906
Instructional staff	413,210	424,262	391,974	32,288
Board of education	211,063	216,708	200,216	16,492
Administration	1,450,989	1,489,798	1,376,418	113,380
Fiscal	579,956	595,468	550,150	45,318
Operations and maintenance	1,543,936	1,585,231	1,464,588	120,643
Pupil transportation	1,534,956	1,576,011	1,456,069	119,942
Central	300,400	308,434	284,961	23,473
Operation of non-instructional services	314,027	322,426	297,888	24,538
Extracurricular activities	167,236	172,496	159,428	13,068
Facilities acquisition and construction	315,584	324,025	299,365	24,660
Total expenditures	<u>17,765,857</u>	<u>18,241,720</u>	<u>16,853,597</u>	<u>1,388,123</u>
Excess of expenditures over revenues	<u>(2,310,697)</u>	<u>(2,075,151)</u>	<u>(670,628)</u>	<u>1,404,523</u>
Other financing sources (uses):				
Refund of prior year expenditures	(5,523)	(6,244)	(5,938)	306
Transfers (out)	-	(102)	(102)	-
Advances in	429,381	456,301	456,301	-
Advances (out)	(650,279)	(735,164)	(699,191)	35,973
Total other financing sources (uses)	<u>(226,421)</u>	<u>(285,209)</u>	<u>(248,930)</u>	<u>36,279</u>
Net change in fund balance	(2,537,118)	(2,360,360)	(919,558)	1,440,802
Fund balance at beginning of year	2,213,668	2,213,668	2,213,668	-
Prior year encumbrances appropriated	333,770	333,770	333,770	-
Fund balance at end of year	<u>\$ 10,320</u>	<u>\$ 187,078</u>	<u>\$ 1,627,880</u>	<u>\$ 1,440,802</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 2,254,564
	2,254,564
Liabilities:	
Current liabilities:	
Claims payable	383,006
	383,006
Net assets:	
Unrestricted.	1,871,558
	\$ 1,871,558

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services	\$ 3,463,063
Total operating revenues	<u>3,463,063</u>
Operating expenses:	
Fringe benefits	209,623
Claims	<u>3,296,744</u>
Total operating expenses	<u>3,506,367</u>
Operating loss	<u>(43,304)</u>
Nonoperating revenues:	
Interest revenue	<u>56,634</u>
Total nonoperating revenues	<u>56,634</u>
Change in net assets	13,330
Net assets at beginning of year	<u>1,858,228</u>
Net assets at end of year	<u><u>\$ 1,871,558</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Governmental Activities - Internal Service Funds</u>
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 3,463,063
Cash payments for fringe benefits	(209,623)
Cash payments for claims	<u>(3,228,251)</u>
Net cash provided by operating activities	<u>25,189</u>
Cash flows from investing activities:	
Interest received	<u>56,634</u>
Net cash provided by investing activities	<u>56,634</u>
Net increase in cash with fiscal agent.	81,823
Cash with fiscal agent at beginning of year	<u>2,172,741</u>
Cash with fiscal agent at end of year.	<u><u>\$ 2,254,564</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss.	\$ (43,304)
Changes in assets and liabilities:	
Increase in claims payable	<u>68,493</u>
Net cash provided by operating activities	<u><u>\$ 25,189</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

		Agency
Assets:		
Equity in pooled cash and cash equivalents	\$	50,196
Receivables:		
Accounts		833
Total assets.	\$	51,029
Liabilities:		
Accounts payable.	\$	503
Due to students		50,526
Total liabilities	\$	51,029

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Harrison Hills City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by State statute and/or federal guidelines.

The District was established in 1971 through the consolidation of existing land areas and school districts. The District serves an area approximately 386 square miles. It is located primarily in Harrison County, however small portions of the District are located in Carroll County, Tuscarawas County, Belmont County and Jefferson County. The District is the 319th largest in the State of Ohio (among 905 public and community school districts) in terms of enrollment. It is staffed by 96 non-certified employees, 120 certified employees and 8 administrators who provide services to 1,687 students and other community members. The District currently operates 8 instructional buildings and 1 administrative building.

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) guidance issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided it does 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 government's 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).

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and educational service centers. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts and acts in the capacity of fiscal agent for OME-RESA.

Belmont Harrison Joint Vocational School

The Belmont Harrison Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the nine participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Belmont Harrison Joint Vocational School, Treasurer's Office, at 110 Fox/Shannon Place, St. Clairsville, Ohio 43950.

INSURANCE PURCHASING POOL

Workers' Compensation Group Rating Program

The District participates the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP). THE GRP is sponsored by OASBO and administered by CompManagements, Inc. 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 District pays a fee to the GRP to cover the costs of administering the program.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

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 (b) grants and other resources whose use is restricted to a particular purpose; and (c) food services 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/surgical and dental benefits to employees.

FIDUCIARY FUND

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's only fiduciary fund is an agency fund. 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.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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, 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, 2010, but which were levied to finance fiscal year 2011 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 are recorded as deferred revenue.

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

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.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2010 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2010.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the fund level for all other funds, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2010; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary 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.

During fiscal year 2010, investments were limited to negotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2010. 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, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$13,054, which includes \$4,133 assigned from other 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 received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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 \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	10 - 20 years
Buildings and improvements	20 - 75 years
Infrastructure	75 years
Furniture and equipment	5 - 20 years

I. Interfund Balances

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, any employee with a continuing contract is considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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, compensated absences and claims and judgments 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. Capital leases are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves / Designations

The District records reserves for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of materials and supplies, prepayments, property tax advance unavailable for appropriation, Bureau of Workers' Compensation (BWC) refunds, textbooks, school bus purchases and endowment. The reserve for property tax advance unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriations under State statute. The amount set-aside by the Board of Education for budget stabilization is reported as a designation of fund balance in the general fund.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. 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 monies restricted by State statute for budget stabilization, BWC refunds, textbooks, school bus purchases and unclaimed monies.

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.

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a reserve for BWC refunds, textbook reserve and school bus purchases. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

Q. 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 the 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.

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 2010.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 275,395
District managed activities	68,827
EMIS	160
Title VI-B	168,822
Education stabilization fund	73,406
Stimulus Title II-D	3,510
Title I	90,063
IDEA preschool	10,147
Improving teacher quality	15,582
Miscellaneous federal grants	8,000

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 result from adjustments for accrued liabilities and the reporting of short-term interfund loans as a fund liability rather than as an other financing source.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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;
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.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 with Fiscal Agent

The District is self-insured through a fiscal agent. 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, 2010 was \$2,254,564.

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$(178,105). 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, 2010, \$142,451 of the District's bank balance of \$412,271 was exposed to custodial risk as discussed below, while \$269,820 was covered by the FDIC.

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 3,580,490	\$ 3,580,490
Negotiable cd's	<u>99,228</u>	<u>99,228</u>
Total	<u>\$ 3,679,718</u>	<u>\$ 3,679,718</u>

The weighted average maturity of investments is .08 years.

Interest Rate Risk: To the extent possible, the District will attempt to match its investment with anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to maturity. Unless matched to a specific obligation or debt of the District, the District will not invest directly in securities maturing more than two years from the date of settlement.

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 rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by the State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,580,490	97.30
Negotiable cd's	<u>99,228</u>	<u>2.70</u>
Total	<u>\$ 3,679,718</u>	<u>100.00</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. 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, 2010

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (178,105)
Investments	3,679,718
Cash with fiscal agent	<u>2,254,564</u>
Total	<u>\$ 5,756,177</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 5,705,981
Agency fund	<u>50,196</u>
Total	<u>\$ 5,756,177</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2010 consisted of the following, as reported on the fund financial statements:

<u>Transfers from the general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	<u>\$ 102</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Interfund balances at June 30, 2010 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 funds	<u>\$ 713,610</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2010 are reported on the statement of net assets.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, 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 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, 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 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. 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 Harrison, Carroll, Tuscarawas, Belmont and Jefferson 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, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$270,051 in the general fund and \$21,417 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$602,515 in the general 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, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to 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.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 196,367,350	88.13	\$ 194,114,460	91.10
Public utility personal	17,074,970	7.66	18,961,010	8.90
Tangible personal property	<u>9,379,790</u>	<u>4.21</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 222,822,110</u>	<u>100.00</u>	<u>\$ 213,075,470</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$37.75		\$37.75	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 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 principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 5,162,300
Accounts	10,073
Intergovernmental	<u>305,002</u>
Total	<u>\$ 5,477,375</u>

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS

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

	Balance <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2010</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 15,067	\$ -	\$ -	\$ 15,067
Total capital assets, not being depreciated	<u>15,067</u>	<u>-</u>	<u>-</u>	<u>15,067</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	417,676	224,670	-	642,346
Buildings and improvements	8,167,518	162,841	-	8,330,359
Infrastructure	27,874	-	-	27,874
Furniture and equipment	1,809,238	688,180	(175,117)	2,322,301
Vehicles	1,852,479	299,636	(114,185)	2,037,930
Total capital assets, being depreciated	<u>12,274,785</u>	<u>1,375,327</u>	<u>(289,302)</u>	<u>13,360,810</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(320,610)	(20,060)	-	(340,670)
Buildings and improvements	(5,225,582)	(150,522)	-	(5,376,104)
Infrastructure	(27,874)	-	-	(27,874)
Furniture and equipment	(1,374,322)	(553,591)	146,342	(1,781,571)
Vehicles	(1,146,697)	(148,062)	102,766	(1,191,993)
Total accumulated depreciation	<u>(8,095,085)</u>	<u>(872,235)</u>	<u>249,108</u>	<u>(8,718,212)</u>
Governmental activities capital assets, net	<u>\$ 4,194,767</u>	<u>\$ 503,092</u>	<u>\$ (40,194)</u>	<u>\$ 4,657,665</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 469,576
Special	28,452
Vocational	5,270
 <u>Support services:</u>	
Pupil	1,787
Instructional staff	3,499
Administration	24,985
Fiscal	30,868
Operations and maintenance	27,255
Pupil transportation	149,707
Central	57,081
Food service operations	68,864
Extracurricular activities	<u>4,891</u>
 Total depreciation expense	 <u><u>\$ 872,235</u></u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the District entered into a capitalized lease for phone equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$258,458. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2010 was \$193,844, leaving a current book value of \$64,614. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2010 fiscal year totaled \$14,076 paid by the general fund. There are no future obligations on this lease.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2010, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/10</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Capital lease obligation	\$ 14,076	\$ -	\$ (14,076)	\$ -	\$ -
Compensated absences	<u>973,785</u>	<u>85,263</u>	<u>(141,995)</u>	<u>917,053</u>	<u>174,893</u>
Total long-term obligations, governmental activities	<u>\$ 987,861</u>	<u>\$ 85,263</u>	<u>\$ (156,071)</u>	<u>\$ 917,053</u>	<u>\$ 174,893</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid, which are primarily the general fund, food service fund (a nonmajor governmental fund) and Title I fund (a nonmajor governmental fund).

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, 2010, are a voted debt margin of \$19,256,488 and an unvoted debt margin of \$213,961.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees, office staff, administrative staff, and certified employees have the following sick leave and severance policies:

<u>Employee Status</u>	<u>Maximum Allowable Sick Leave Balance (Days)</u>	<u>Paid at 1/4 of Unused Sick Leave Balance</u>	<u>Paid at 1/8 of Unused Sick Leave Balance</u>	<u>Total Allowable Maximum Severance (Days)</u>
Classified	279	First 133 Days	Any Balance Over 133 Days	52
Office Staff	335	First 142 Days	Any Balance Over 142 Days	60
Administrative	335	First 160 Days	Any Balance Over 160 Days	62
Certified	335	First 144 Days	Any Balance Over 144 Days	60

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has contracted with Ohio School Plan via Harcum-Hyre Insurance Agency for property and inland marine coverage; fleet insurance; and professional liability coverage. Coverage is provided as follows:

<u>Description</u>	<u>Amount</u>
Building and Contents - replacement cost (\$1,000 deductible)	\$52,436,447
Boiler and Machinery (\$1,000 deductible)	52,436,447
Crime Insurance	50,000

Coverage provided by Indiana Insurance is as follows:

General Liability	
Per occurrence	1,000,000
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - RISK MANAGEMENT - (Continued)

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

B. Workers' Compensation

For fiscal year 2010, the District participated in the OASBO Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. 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 tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. 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 their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Employee Group Medical, Dental, Vision and Life Insurance

Medical/surgical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 49 school districts within the OME-RESA consortium, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf. The claims liability of \$383,006 reported in the internal service fund at June 30, 2010, 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 claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2010	\$ 314,513	\$ 3,220,819	\$ (3,152,326)	\$ 383,006
2009	510,563	3,417,221	(3,613,271)	314,513

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - 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, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by 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 *Employers/Audit Resources*.

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 2010, 12.78 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, 2010, 2009 and 2008 were \$290,680, \$196,745 and \$192,354, respectively; 53.82 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 13 - 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 2010, 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, 2010, 2009 and 2008 were \$934,591, \$942,063 and \$954,483, respectively; 83.94 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$22,994 made by the District and \$16,425 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, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

**HARRISON HILLS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$53,539, \$132,843 and \$127,480, respectively; 53.82 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$17,286, \$16,233 and \$13,860, respectively; 53.82 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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 2010, 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, 2010, 2009, and 2008 were \$71,892, \$72,466 and \$73,422, respectively; 83.94 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts 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);
- (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);
- (d) Investments are reported as fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Advances 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	\$ (919,558)
Net adjustment for revenue accruals	(413,459)
Net adjustment for expenditure accruals	208,809
Net adjustment for other sources/uses	248,828
Adjustment for encumbrances	<u>588,881</u>
GAAP basis	<u>\$ (286,499)</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 16 - 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 involved in no material litigation as either plaintiff or defendant.

NOTE 17 - 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, 2010, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>BWC Refunds</u>
Set-aside balance as of June 30, 2009	\$ 612,902	\$ -	\$ 73,694
Current year set-aside requirement	279,181	279,181	-
Current year offsets	-	(318,724)	-
Qualifying disbursements	<u>(281,133)</u>	<u>(124,662)</u>	<u>-</u>
 Total	 <u>\$ 610,950</u>	 <u>\$ (164,205)</u>	 <u>\$ 73,694</u>
 Balance carried forward to fiscal year 2011	 <u>\$ 610,950</u>	 <u>\$ -</u>	 <u>\$ 73,694</u>

The District also had \$1,422 restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2010 follows:

Amount restricted for textbooks	\$ 610,950
Amount restricted for BWC refunds	73,694
Amount restricted for school bus purchases	<u>1,422</u>
 Total restricted assets	 <u>\$ 686,066</u>
 Amount designated for budget stabilization	 <u>\$ 78,109</u>

Although the District had offsets and qualifying expenditures during the fiscal year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future fiscal years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2010, the District had the following contractual commitments outstanding related to various construction projects that started after June 30, 2010. A summary of the primary contractual commitments follows:

Project	Contract Amount	Amount Paid as of June 30, 2010	Amount Remaining on Contract
A.R. Mellinger Company, LLC.	\$ 118,140	\$ -	\$ 118,140
Birkheimer Asphalt	117,830	-	117,830
Cardinal Asphalt	76,456	-	76,456
Gor-Con Constructions, Inc.	20,680	-	20,680
Wood Electric, Inc.	3,457	-	3,457
Total	<u>\$ 336,563</u>	<u>\$ -</u>	<u>\$ 336,563</u>

NOTE 19 - FISCAL CAUTION

On May 20, 2010, the District was declared to be in a state of "Fiscal Caution" by the Auditor of State. In accordance with this law, within sixty days of the Auditor's declaration of a fiscal caution, the Board of Education of the District had to prepare and submit to the Superintendent of Public Instruction, a financial plan outlining the steps the Board will take to eliminate the District's current operating deficit and avoid future deficits.

NOTE 20 - SIGNIFICANT SUBSEQUENT EVENT

On November 23, 2010, the District issued energy conservation notes in the amount of \$565,000 for various improvements to school buildings. These notes bear an interest rate of 5.43% and mature on December 1, 2025.

HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY

FEDERAL AWARDS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA No.	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster			
Non Cash Assistance: National School Lunch Program	10.555	\$32,838	\$32,838
Cash Assistance: National School Lunch Program	10.555	333,114	333,114
National School Breakfast Program	10.553	198,536	198,536
School Lunch Equipment-Federal Stimulus-ARRA	10.579	<u>10,000</u>	<u>10,000</u>
Cash Assistance Subtotal		<u>541,650</u>	<u>574,488</u>
Total U.S. Department of Agriculture - Nutrition Cluster (Cash and Non-Cash)		<u>574,488</u>	<u>574,488</u>
U.S. Department of Education			
<i>Passed Through Ohio Department of Education:</i>			
Title I - Grants to Local Educational Agencies - Cluster (ESEA Title I)	84.010	630,554	600,680
Title IA -Recovery Act, Federal Stimulus-ARRA	84.389	<u>175,416</u>	<u>175,416</u>
Total Title I - Grants to Local Education Agencies - Cluster		805,970	776,096
Special Education Cluster:			
Special Education Grants to States (IDEA Part B)	84.027	555,590	504,728
Special Education - Preschool Grant	84.173	20,919	19,154
Special Education Grants to States, Recovery Act - Federal Stimulus-ARRA	84.391	279,490	279,440
Special Education- Preschool, Recovery Act - Federal Stimulus-ARRA	84.392	<u>14,228</u>	<u>14,228</u>
Total Special Education Cluster		870,227	817,550
State Fiscal Stabilization (SFSF)-Recovery Act- Federal Stimulus-ARRA	84.394	<u>654,385</u>	<u>662,048</u>
Total State Fiscal Stabilization -Federal Stimulus		654,385	662,048
Title II-A Improving Tchr Quality Program	84.367	<u>178,985</u>	<u>159,869</u>
Total Title II-A Improving Teacher Quality Program		178,985	159,869
Safe and Drug Free Schools and Communities - State Grants	84.186	<u>16,240</u>	<u>10,116</u>
Total Safe and Drug Free Schools and Communities - State Grants		16,240	10,116
Education Technology State Grants Title II-D	84.318	<u>3,788</u>	<u>623</u>
Total Education Technology State Grants Title II-D -Cluster		3,788	623
Rural Education	84.358	<u>3,736</u>	<u>3,736</u>
Total Rural Education		3,736	3,736
School Improvement Grant	84.377	<u>72,522</u>	<u>69,283</u>
Total School Improvement Grant		<u>72,522</u>	<u>69,284</u>
Total U.S Department of Education		<u>2,605,853</u>	<u>2,499,321</u>
U.S. Department of Health and Human Services			
<i>Passed Through Ohio Department of Education:</i>			
Medical Assistance Program Title XIX - Cluster	93.778	<u>120,190</u>	<u>17,459</u>
Total Federal Awards Receipts and Expenditures		<u>\$3,300,531</u>	<u>\$3,091,268</u>

See the notes to the Federal Awards Receipts and Expenditures schedule.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURE SCHEDULE
JUNE 30, 2010**

A. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditure Schedule (the Schedule) reports the Harrison Hills City School District (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

B. CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

C. FOOD DONATION PROGRAM

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



Mary Taylor, CPA

Auditor of State

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

Harrison Hills City School District
Harrison County
P.O. Box 356
Hopedale, OH 43976

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 30, 2010.

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

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

Mary Taylor, CPA
Auditor of State

December 30, 2010



Mary Taylor, CPA

Auditor of State

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

Harrison Hills City School District
Harrison County
P.O. Box 356
Hopedale, OH 43976

To the Board of Education:

Compliance

We have audited the compliance of Harrison Hills City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Harrison Hills City School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in findings 2010-001 and 2010-002 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs and procurements applicable to its Title I program and to its Special Education Cluster. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Harrison Hills City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists this instance as finding 2010-003.

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Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-001 through 2010-003 to be material weaknesses.

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

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated December 30, 2010.

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



Mary Taylor, CPA
Auditor of State

December 30, 2010

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	1) Title 1 84.010 & 84.389 2) Special Education Cluster 84.027, 84.173, 84.391 & 84.392 3) Education Federal Stimulus 84.394 4) Improving Teacher Quality 84.367
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Allowable Cost/Costs Principles

Finding Number	2010-001
CFDA Title and Number	Special Education Grants to States, Idea-Part B 84.027 Title I 84.010
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost/Noncompliance Finding/Material Weakness

2 Code Federal Regulations Part 225 Appendix B Section 8H (4) states where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix.

One employee, who worked on multiple cost objectives, was partially paid with IDEA-Part B monies and one employee who worked on multiple cost objects was partially paid with Title I Part A funds. Neither of these employees completed time and effort reports. Failure to maintain the time and effort logs, as required has resulted in questioned costs in the amounts of \$46,959 and \$11,105 for those portions of the salaries paid with IDEA Part B monies and Title I Part A monies, respectively.

The Director of Special Programs should establish specific procedures by which each employee working on multiple activities or multiple federal programs will complete time and effort logs on a timely basis. The time and effort logs should be an "after the fact" representation of the hours worked. Therefore, these should be completed in a reasonably short time after the end of the period the log is meant to cover. All time and effort logs should be full disclosure of the facts and should include credible signatures.

This questioned cost will be referred to the Ohio Department of Education.

Officials' Response:

The purpose of splitting employees between two grants was to create positions and enhance the educational process for our students. Administration did realize that time and effort logs would need completed and requested that it be done. However, the Harrison Hills Teacher's Union responded that the staff would not complete them and instructed their members to not do them. Since the administration was met with much resistance, the board of education and administration agreed that instructional staff would no longer be paid from more than one Federal grant. This practice has been eliminated.

Procurement and Suspension and Debarment

Finding Number	2010-002
CFDA Title and Number	Special Education Grants to States, Recovery Act - Federal Stimulus-ARRA #84.391
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost/Noncompliance Finding/Material Weakness

Section 1605 of the American Reinvestment and Recovery Act of 2009 (ARRA) states that none of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. The Act provides an exception to this requirement where the head of a Federal department or agency determines that it is necessary to waive the application. In such cases, the head of the department or agency shall publish in the Federal Register a detailed written justification as to why the provision is being waived.

On June 15, 2010, the District entered into a contract with A.R. Mellinger Company, LLC. for an incline chair lift and ADA accessible upgrades. Not all of the iron, steel, and manufactured goods used in the chair lift were produced in the United States and the District failed to obtain a waiver of requirements. Failure to use American made products resulted in questioned costs in the amount of \$109,250, paid from the IDEA-Part B ARRA grant for the incline chair lift.

The District should review grant requirements related to the American Reinvestment and Recovery Act prior to obligating funds for expenditure. If a waiver of requirements is deemed necessary, the waiver should be obtained prior to entering into such contracts. By becoming more familiar with grant requirements, the District will increase controls over grant funds and decrease its risk of expending federal monies for unallowable costs.

This questioned cost will be referred to the Ohio Department of Education.

Official’s Response:

The district utilized an engineering firm to coordinate activities and requirements for the installation of the incline chair lift. For future endeavors, the district will review all grant requirements with all parties involved prior to obligating funds for expenditure. If a waiver of requirements is deemed necessary, the waiver shall be obtained prior to entering into such contracts.

Allowable Costs/Cost Principles

Finding Number	2010-003
CFDA Title and Number	State Fiscal Stabilization (SFSF)- Recovery Act- Federal Stimulus-ARRA 84.394
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost/Noncompliance Finding/Material Weakness

2 Code of Federal Regulations Section 215.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period.

The period of availability for the State Fiscal Stabilization Fund began on July 1, 2009. The District charged textbooks to the grant that were ordered in June 2009. The obligation was incurred in the prior fiscal year and prior to the beginning of the period of availability. Failure to charge within the funding period resulted in a questioned cost in the amount of \$36,588 for textbooks purchased with State Fiscal Stabilization Funding.

The District should review grant documents and guidance which stipulate the period of availability for federal funding. The District should take the necessary steps to ensure that only allowable expenditures incurred within the period of availability are charged to the grant.

This questioned cost will be referred to the Ohio Department of Education.

Officials' Response:

The district's intent was to purchase the textbooks for the 2009-2010 school year and to use the state stabilization monies for this purchase. The use of the textbooks was for the period of the grant. However, the purchase order was done on June 16, 2009 with the actual order being placed two days prior to the availability of the grant period. This was not done intentionally and was on oversight. The person in charge of the order was just trying to complete everything for the 2009-2010 school year before the end of her contract for the 2008-2009 school year. Since my focus was on closing the books for the fiscal year, I did not catch the error in June. Only when reviewing the expenditures in July did I realize that the code was wrong and redistributed the expense to the State Stabilization Fund. I did not think to look to verify that it had been encumbered and ordered in July. I only saw that we paid for it in July. I will make sure that I do not do this in the future and review all aspects of any redistribution including when it was encumbered, ordered, received and paid.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	2 CFR 225 Appendix B Section 8 h (3) (4) employees did not sign semi-annual certifications and failed to maintain time and efforts logs resulting in questioned costs	Partially	Reissued as Finding 2010-001

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Dave Yost • Auditor of State

HARRISON HILLS CITY SCHOOL DISTRICT

HARRISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 31, 2011**