



Mary Taylor, CPA  
Auditor of State



**ROLLING HILLS LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets .....	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Net Change in Fund Balances of Governmental Funds to the Statement of Activities .....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund .....	16
Statement of Fund Net Assets – Internal Service Fund.....	17
Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund .....	18
Statement of Cash Flows – Internal Service Fund .....	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund .....	21
Notes to the Basic Financial Statements .....	23
Schedule of Federal Awards Receipts and Expenditures.....	49
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	50
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	51
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 .....	53
Schedule of Findings – OMB Circular A-133 § .505 .....	55
Schedule of Prior Audit Findings – OMB Circular A-133 § .315(b).....	56

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Rolling Hills Local School District  
Guernsey County  
P.O. Box 38  
Byesville, Ohio 43723

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 the Rolling Hills Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Rolling Hills Local School District, Guernsey County, Ohio, as of June 30, 2007, 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 disclosed in Note 19, the School District is experiencing certain financial difficulties. Note 19 describes those conditions and management's intended plans.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 29, 2008

**Rolling Hills Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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The discussion and analysis of the Rolling Hills Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for the fiscal year 2007 are as follows:

- Net assets of governmental activities increased \$994,179.
- General revenues accounted for \$14,456,114 in revenue or 77 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,244,346, or 23 percent of total revenues of \$18,700,460.
- The School District had \$17,706,281 in expenses related to governmental activities; only \$4,244,346 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$14,456,114 were adequate to provide for the remainder of these activities.
- The School District has one major fund: the General Fund. The General Fund had \$15,092,781 in revenues and \$13,820,362 in expenditures. The General Fund's balance increased \$1,264,570.

**Using this Annual Financial Report**

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 School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

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

**Rolling Hills Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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***Reporting the School District as a Whole***

**Statement of Net Assets and Statement of Activities**

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into consideration all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School 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, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, extracurricular activities, and interest.

***Reporting the School District's Most Significant Funds***

***Fund Financial Statements***

The analysis of the School District's major fund begins on page 8. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant fund. The School District's major governmental fund is the General Fund.

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



**Rolling Hills Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006.

**Table 1**  
**Net Assets**

	<u>Governmental Activities</u>		
	<u>2007</u>	<u>2006</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$8,657,464	\$7,860,145	\$797,319
Capital Assets	12,733,988	13,252,071	(518,083)
<b>Total Assets</b>	<u>21,391,452</u>	<u>21,112,216</u>	<u>279,236</u>
<b>Liabilities</b>			
Long-Term Liabilities	2,125,810	2,330,716	(204,906)
Other Liabilities	5,646,082	6,156,119	(510,037)
<b>Total Liabilities</b>	<u>7,771,892</u>	<u>8,486,835</u>	<u>(714,943)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	12,083,988	12,277,071	(193,083)
Restricted	2,117,100	1,983,904	133,196
Unrestricted (Deficit)	(581,528)	(1,635,594)	1,054,066
<b>Total Net Assets</b>	<u>\$13,619,560</u>	<u>\$12,625,381</u>	<u>\$994,179</u>

Total assets increased \$279,236. Cash and cash equivalents increased \$1,148,980 due to budget reductions, which were due to teachers retiring and not being replaced, which increased cash flow. This increase was offset by a decrease in capital assets of \$518,083, as well as a decrease in property taxes receivable in the amount of \$278,204 from fiscal year 2006. Capital assets decreased mostly due to current year depreciation exceeding capital asset additions. The decrease in property taxes receivable was primarily due to phase out of personal property taxes.

Total liabilities decreased \$714,943. The decrease in general obligation bonds in the amount of \$325,000 accounted for a large majority of this decrease. There was also a decrease in accrued wages and benefits and intergovernmental payable of \$120,478 and \$101,738, respectively. This decrease was due to teachers retiring and a reduction of wages and severance pay outstanding.

Total net assets increased \$994,179 for the reasons stated above. Specifically, unrestricted net assets increased by \$1,054,066.

**Rolling Hills Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2007, and comparisons to fiscal year 2006.

**Table 2**  
**Change in Net Assets**

<b>Revenues</b>	Governmental Activities		
	2007	2006	Change
Program Revenues			
Charges for Services	\$1,140,755	\$1,101,847	\$38,908
Operating Grants and Contributions	2,830,902	2,878,775	(47,873)
Capital Grants and Contributions	272,689	51,025	221,664
Total Program Revenues	<u>4,244,346</u>	<u>4,031,647</u>	<u>212,699</u>
General Revenue			
Property Taxes	5,173,898	5,384,291	(210,393)
Grants and Entitlements	8,965,722	8,663,181	302,541
Investment Earnings	126,729	59,915	66,814
Miscellaneous	189,765	178,848	10,917
Total General Revenues	<u>14,456,114</u>	<u>14,286,235</u>	<u>169,879</u>
Total Revenues	<u>18,700,460</u>	<u>18,317,882</u>	<u>382,578</u>
<b>Program Expenses</b>			
Instruction:			
Regular	8,148,422	8,516,389	(367,967)
Special	1,898,266	1,885,555	12,711
Vocational	325,791	399,570	(73,779)
Intervention	0	40,698	(40,698)
Support Services:			
Pupils	632,449	557,707	74,742
Instructional Staff	970,442	1,043,608	(73,166)
Board of Education	57,557	31,842	25,715
Administration	1,292,465	1,291,574	891
Fiscal	502,676	486,269	16,407
Operation and Maintenance of Plant	1,668,150	1,678,230	(10,080)
Pupil Transportation	936,709	896,098	40,611
Central	37,484	83,540	(46,056)
Operation of Non-Instructional Services:			
Food Service Operations	900,275	890,143	10,132
Other Non-Instructional Services	11,755	11,113	642
Extracurricular Activities	253,035	376,547	(123,512)
Interest	70,805	100,055	(29,250)
Total Expenses	<u>17,706,281</u>	<u>18,288,938</u>	<u>(582,657)</u>
<b>Change in Net Assets</b>	994,179	28,944	965,235
Net Assets Beginning of Year	<u>12,625,381</u>	<u>12,596,437</u>	<u>28,944</u>
Net Assets End of Year	<u>\$13,619,560</u>	<u>\$12,625,381</u>	<u>\$994,179</u>

**Rolling Hills Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the revenue from tax on real property generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 28 percent of revenues for governmental activities for the School District in fiscal year 2007.

While the School District operates a very tight budget, revenue sources are projected to keep pace with expenses through 2010. This is after four years of no base salary increases and no projected base salary increases in the future. Realistically changes are going to have to be made to increase revenues or decrease expenses. Enrollment also is a factor in the finances of the School District. The School District lost \$353,776 in open enrollment and \$141,610 to community schools in fiscal year 2007.

Instructional programs comprise approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 79 percent is for regular instruction, 18 percent for special instruction, and 3 percent for vocational instruction.

The School District had an increase in the program revenue line item of capital grants and contributions. This is a result of the School District receiving FEMA dollars to repair flood damage to the School District's administrative building as well as building a flood wall around the administration building to prevent future flood damage. Property taxes revenue decreased \$210,393 and the corresponding property taxes receivable decreased as a result of the phase out of personal property taxes.

Regular instruction decreased \$367,967 as a result of attrition. Extracurricular activities expenses decreased \$123,512 as a result of decreased participation in athletics due to the implementation of pay to play.

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

**Rolling Hills Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

**Table 3**  
**Governmental Activities**

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
<b>Instruction:</b>				
Regular	\$8,148,422	\$7,307,746	\$8,516,389	\$7,820,036
Special	1,898,266	711,609	1,885,555	723,555
Vocational	325,791	224,766	399,570	309,646
Intervention	0	0	40,698	8,343
<b>Support Services:</b>				
Pupils	632,449	472,951	557,707	530,477
Instructional Staff	970,442	558,476	1,043,608	435,486
Board of Education	57,557	57,557	31,842	31,842
Administration	1,292,465	1,271,789	1,291,574	1,284,987
Fiscal	502,676	500,973	486,269	481,762
Operation and Maintenance of Plant	1,668,150	1,328,830	1,678,230	1,556,303
Pupil Transportation	936,709	892,936	896,098	862,643
Central	37,484	33,829	83,540	77,377
<b>Operation of Non-Instructional Services:</b>				
Food Service Operation	900,275	45,610	890,143	(32,279)
Other Non-Instructional Services	11,755	6,705	11,113	1,869
Extracurricular Activities	253,035	(22,647)	376,547	65,189
Interest	70,805	70,805	100,055	100,055
<b>Total Expenses</b>	<u><u>\$17,706,281</u></u>	<u><u>\$13,461,935</u></u>	<u><u>\$18,288,938</u></u>	<u><u>\$14,257,291</u></u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 76 percent of the School District's activities being supported primarily through taxes and intergovernmental revenues. 24 percent of total governmental activities are supported by program revenues in the form of charges for services, operating grants, capital grants, and contributions.

**The School District's Funds**

The School District's governmental funds are accounted for modified accrual basis of accounting. All governmental funds had total revenues of \$18,892,186 and expenditures of \$17,329,173. Total fund balances increased \$1,569,263. The net change in fund balance for the year was most significant in the General Fund, an increase of \$1,264,570. As a result of its Fiscal Caution status, the School District has implemented cost reduction measures that have allowed the General Fund balance to increase. In particular, a decrease in staff due to attrition and the decrease in participation in athletics as a result of the implementation of pay to play resulted in a decrease of expenditures of \$646,392 from fiscal year 2006. This decrease in expenditures has allowed the General Fund to accumulate a cash and cash equivalents balance in the amount of \$1,146,490, an increase from its zero balance in fiscal year 2007. The General Fund had total revenues of \$15,092,781 and total expenditures of \$13,820,362.

**General Fund Budgeting Highlights**

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

**Rolling Hills Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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During the course of fiscal 2007, the School District amended its General Fund budget. However, estimated revenue amendments were minimal and appropriation amendments were significant for the regular instruction line item. This line item had final appropriations of \$10,754,910, \$717,262 below original appropriations of \$11,472,172 due to a reduction in staff through attrition. For the General Fund, final budgeted revenues were \$14,972,117. The General Fund actual revenues were \$15,017,819, which was \$45,702 higher than the budgeted revenues. This was primarily due to receiving more property taxes revenue than budgeted. Ending appropriations for the General Fund were \$14,484,673. This was \$330,301 higher than actual expenditures of \$14,154,372. This was primarily due to wages and fringes being less than projected due to retirements and reductions in staff.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2007, the School District had \$12,733,988 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. During fiscal year 2007, the School District purchased land improvements, building improvements, and furniture and equipment. See Note 8 for additional information regarding capital assets.

*Debt*

At June 30, 2007, the School District had \$650,000 in 1985 general obligation bonds outstanding, \$325,000 due within one year. The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2009. See Note 14 for more detailed information of the School District's debt.

*Set-asides*

For fiscal year 2007, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials. For fiscal year 2007, this amounted to \$307,471 for each set aside. For fiscal year 2007, the School District did not have qualifying disbursements or offsets exceeding the \$307,471 requirement for textbooks and instructional materials and capital improvements. Therefore, cash was restricted and a reserve created for the requirement for textbooks and instructional materials and capital improvements. This set-aside will be carried forward to future years. See Note 18 for more detailed information of the School District's set-asides.

**Rolling Hills Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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***Economic Factors***

The School District ended fiscal year 2007 with a positive cash flow. Based on the current financial situation, the School District will not make additional cuts since there was a positive cash flow for the 2007 fiscal year. To maintain the positive cash flow, a retirement incentive plan has been implemented for the teaching staff and seventeen teachers have accepted it over the last two fiscal years. Additional staffing cuts and/or reduced hours may be implemented with the administrative, custodial, transportation, and educational assistant positions. The athletic activities are being supported out of Athletic Booster donations and fees collected in a pay-to-participate program. The School District's five year forecast reflects a \$80,427 carryover at the end of fiscal year 2008 after reservations (set asides). The School District's emergency replacement levy, which was on the November 2006 ballot, passed, and will maintain revenues of approximately \$1,400,000 annually. Based on these factors, the Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to ensure the future financial stability of the School District.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Jeffrey Walters, Treasurer/CFO at Rolling Hills Local School District, P.O. Box 38, Byesville, Ohio 43723.

**Rolling Hills Local School District, Ohio**

*Statement of Net Assets*

*June 30, 2007*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,799,414
Accounts Receivable	15,503
Intergovernmental Receivable	438,951
Prepaid Items	36,127
Inventory Held for Resale	12,753
Materials and Supplies Inventory	89,983
Property Taxes Receivable	5,264,733
Nondepreciable Capital Assets	214,502
Depreciable Capital Assets, Net	12,519,486
Total Assets	<u>21,391,452</u>
<b>Liabilities</b>	
Accounts Payable	68,661
Accrued Wages and Benefits Payable	1,537,521
Intergovernmental Payable	439,980
Accrued Interest Payable	4,640
Claims Payable	244,100
Deferred Revenue	3,245,272
Matured Compensated Absences Payable	105,908
Long-Term Liabilities:	
Due Within One Year	513,741
Due In More Than One Year	1,612,069
Total Liabilities	<u>7,771,892</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	12,083,988
Restricted for:	
Capital Projects	12,086
Debt Service	553,444
Other Purposes	634,038
Textbooks Setaside	676,502
Capital Maintenance Setaside	228,671
Bus Purchase	12,359
Unrestricted (Deficit)	(581,528)
Total Net Assets	<u><u>\$13,619,560</u></u>

See accompanying notes to the basic financial statements

**Rolling Hills Local School District, Ohio**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2007*

	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Governmental Activities</b>				Governmental Activities	
Instruction:					
Regular	\$8,148,422	\$606,082	\$234,594	\$0	(\$7,307,746)
Special	1,898,266		1,186,657	0	(711,609)
Vocational	325,791	0	101,025	0	(224,766)
Support Services:					
Pupils	632,449	0	159,243	255	(472,951)
Instructional Staff	970,442	0	397,221	14,745	(558,476)
Board of Education	57,557	0	0	0	(57,557)
Administration	1,292,465	5,383	15,293	0	(1,271,789)
Fiscal	502,676	0	1,703	0	(500,973)
Operation and Maintenance of Plant	1,668,150	61,982	32,008	245,330	(1,328,830)
Pupil Transportation	936,709	11,856	19,558	12,359	(892,936)
Central	37,484	0	3,655	0	(33,829)
Operation of Non-Instructional Services:					
Food Service Operations	900,275	286,997	567,668	0	(45,610)
Other Non-Instructional Services	11,755	0	5,050	0	(6,705)
Extracurricular Activities	253,035	168,455	107,227	0	22,647
Interest	70,805	0	0	0	(70,805)
<b>Total Governmental Activities</b>	<b>\$17,706,281</b>	<b>\$1,140,755</b>	<b>\$2,830,902</b>	<b>\$272,689</b>	<b>(13,461,935)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes				4,885,354	
Other Purposes				81,480	
Debt Service				207,064	
Grants and Entitlements not Restricted to Specific Programs				8,965,722	
Investment Earnings				126,729	
Miscellaneous				189,765	
<b>Total General Revenues</b>				<b>14,456,114</b>	
Change in Net Assets				994,179	
Net Assets Beginning of Year				12,625,381	
Net Assets End of Year				<u>\$13,619,560</u>	

See accompanying notes to the basic financial statements



**Rolling Hills Local School District, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2007*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$228,958	\$1,126,897	\$1,355,855
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	917,532	0	917,532
Accounts Receivable	9,218	6,285	15,503
Interfund Receivable	70,644	0	70,644
Intergovernmental Receivable	61,952	376,999	438,951
Prepaid Items	33,078	3,049	36,127
Inventory Held for Resale	0	12,753	12,753
Materials and Supplies Inventory	86,561	3,422	89,983
Property Taxes Receivable	4,967,173	297,560	5,264,733
Total Assets	<u>\$6,375,116</u>	<u>\$1,826,965</u>	<u>\$8,202,081</u>
<b>Liabilities</b>			
Accounts Payable	\$52,028	\$16,633	\$68,661
Accrued Wages and Benefits Payable	1,290,959	246,562	1,537,521
Matured Compensated Absences Payable	73,597	32,311	105,908
Interfund Payable	0	70,644	70,644
Deferred Revenue	3,690,248	318,752	4,009,000
Intergovernmental Payable	361,607	78,373	439,980
Total Liabilities	<u>5,468,439</u>	<u>763,275</u>	<u>6,231,714</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	171,259	57,861	229,120
Reserved for Textbooks and Instructional Materials	676,502	0	676,502
Reserved for Capital Improvements	228,671	0	228,671
Reserved for Property Taxes	1,303,702	75,244	1,378,946
Reserved for Bus Purchase	12,359	0	12,359
Unreserved:			
Undesignated, Reported in:			
General Fund (Deficit)	(1,485,816)	0	(1,485,816)
Special Revenue Funds	0	439,700	439,700
Debt Service Fund	0	478,799	478,799
Capital Projects Funds	0	12,086	12,086
Total Fund Balances	<u>906,677</u>	<u>1,063,690</u>	<u>1,970,367</u>
Total Liabilities and Fund Balances	<u>\$6,375,116</u>	<u>\$1,826,965</u>	

**Amounts reported for governmental activities in the statement of net assets are different because of the following:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,733,988
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:	
Property Taxes	640,515
Grants	123,213
	<u>763,728</u>
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.	281,927
Long-term liabilities and accrued interest payable are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds Payable	(650,000)
Accrued Interest Payable	(4,640)
Compensated Absences Payable	(891,810)
Retirement Incentive Payable	(584,000)
Total Long-Term Liabilities	<u>(2,130,450)</u>
Net Assets of Governmental Activities	<u>\$13,619,560</u>

**Rolling Hills Local School District, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2007*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$4,848,414	\$289,774	\$5,138,188
Intergovernmental	9,491,200	2,662,719	12,153,919
Interest	114,106	0	114,106
Tuition and Fees	603,057	89,719	692,776
Extracurricular Activities	0	94,975	94,975
Rentals	4,066	56,839	60,905
Charges for Services	0	286,997	286,997
Contributions and Donations	762	159,793	160,555
Miscellaneous	31,176	158,589	189,765
<b>Total Revenues</b>	<b>15,092,781</b>	<b>3,799,405</b>	<b>18,892,186</b>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	7,565,362	310,147	7,875,509
Special	1,124,868	679,560	1,804,428
Vocational	315,062	0	315,062
Support Services:			
Pupils	337,687	270,539	608,226
Instructional Staff	399,199	525,780	924,979
Board of Education	57,557	0	57,557
Administration	1,261,401	26,188	1,287,589
Fiscal	484,963	8,853	493,816
Operation and Maintenance of Plant	1,414,492	130,623	1,545,115
Pupil Transportation	775,236	27,551	802,787
Central	29,755	7,193	36,948
Operation of Non-Instructional Services:			
Food Service Operations	0	865,691	865,691
Other Non-Instructional Services	211	11,755	11,966
Extracurricular Activities	44,980	180,621	225,601
Capital Outlay	9,589	66,185	75,774
Debt Service:			
Principal Retirement	0	325,000	325,000
Interest and Fiscal Charges	0	73,125	73,125
<b>Total Expenditures</b>	<b>13,820,362</b>	<b>3,508,811</b>	<b>17,329,173</b>
Excess of Revenues Over (Under) Expenditures:	1,272,419	290,594	1,563,013
<b>Other Financing Sources (Use)</b>			
Transfers In	0	14,099	14,099
Proceeds from Sale of Capital Assets	6,250	0	6,250
Transfers Out	(14,099)	0	(14,099)
<b>Total Other Financing Sources (Use)</b>	<b>(7,849)</b>	<b>14,099</b>	<b>6,250</b>
Net Change in Fund Balances	1,264,570	304,693	1,569,263
Fund Balances (Deficit) Beginning of Year	(357,893)	758,997	401,104
Fund Balances End of Year	\$906,677	\$1,063,690	\$1,970,367

See accompanying notes to the basic financial statements

**Rolling Hills Local School District, Ohio**  
*Reconciliation of the Net Change in Fund Balances of Governmental  
Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007*

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Net Change in Fund Balances - Total Governmental Funds	\$1,569,263
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**Amounts reported for governmental activities in the statement of activities are different because of the following:**

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 depreciation exceeded capital outlay in the current period:

Capital Assets Additions	40,127	
Current Year Depreciation	<u>(543,934)</u>	(503,807)

Governmental funds only report the disposal of capital assets to the extent proceeds in the amount of \$6,250 were received. In the statement of activities, a loss has been reported in the amount of \$20,526, which represents the net carrying value of the assets at the time of disposal	(14,276)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	35,710	
Tuition and Fees	5,102	
Intergovernmental	<u>(245,161)</u>	(204,349)

Compensated absences and retirement incentives reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds:	(120,094)
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Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	325,000
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	2,320
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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. The net change of the internal service fund is reported with governmental activities.	<u>(59,878)</u>
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Change in Net Assets of Governmental Activities	<u><u>\$994,179</u></u>
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See accompanying notes to the basic financial statements

**Rolling Hills Local School District, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2007*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$4,817,275	\$4,754,187	\$4,863,988	\$109,801
Intergovernmental	9,343,215	9,430,605	9,425,015	(5,590)
Interest	80,000	100,000	114,106	14,106
Tuition and Fees	711,718	649,525	574,628	(74,897)
Rentals	11,000	11,000	8,066	(2,934)
Contributions and Donations	0	0	762	762
Miscellaneous	26,800	26,800	31,254	4,454
<b>Total Revenues</b>	<b>14,990,008</b>	<b>14,972,117</b>	<b>15,017,819</b>	<b>45,702</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	11,472,172	10,754,910	7,702,488	3,052,422
Special	864,095	885,541	1,132,336	(246,795)
Vocational	83,855	112,145	339,585	(227,440)
Support Services:				
Pupils	109,699	112,699	350,574	(237,875)
Instructional Staff	204,041	181,041	397,382	(216,341)
Board of Education	33,716	35,437	33,776	1,661
Administration	395,007	394,627	1,287,150	(892,523)
Fiscal	317,292	317,292	491,130	(173,838)
Operation and Maintenance of Plant	1,107,557	1,090,298	1,512,479	(422,181)
Pupil Transportation	563,878	550,315	761,332	(211,017)
Central	39,371	29,371	36,248	(6,877)
Extracurricular Activities	11,270	11,277	42,723	(31,446)
Capital Outlay	2,446	9,720	67,169	(57,449)
<b>Total Expenditures</b>	<b>15,204,399</b>	<b>14,484,673</b>	<b>14,154,372</b>	<b>330,301</b>
Excess of Revenues Over (Under) Expenditures	(214,391)	487,444	863,447	376,003
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Fixed Assets	0	5,950	6,250	300
Refund of Prior Year Expenditures	0	0	66,185	66,185
Advances In	0	7,361	120,403	113,042
Transfers Out	0	0	(14,099)	(14,099)
Refund of Prior Year Receipts	0	0	(31,963)	(31,963)
Advances Out	0	0	(63,283)	(63,283)
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>13,311</b>	<b>83,493</b>	<b>70,182</b>
Net Change in Fund Balance	(214,391)	500,755	946,940	446,185
Fund Balance (Deficit) Beginning of Year	(114,986)	(114,986)	(114,986)	0
Prior Year Encumbrances Appropriated	114,986	114,986	114,986	0
<b>Fund Balance (Deficit) End of Year</b>	<b>(\$214,391)</b>	<b>\$500,755</b>	<b>\$946,940</b>	<b>\$446,185</b>

**Rolling Hills Local School District, Ohio**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2007*

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	Medical-Dental-Prescription Self-Insurance
<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$526,027
<b>Current Liabilities</b>	
Claims Payable	244,100
<b>Net Assets</b>	
Unrestricted	\$281,927

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See accompanying notes to the basic financial statements

**Rolling Hills Local School District, Ohio**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2007*

	Medical-Dental-Prescription Self-Insurance
<b>Operating Revenues</b>	
Charges for Services	\$2,539,127
<b>Operating Expenses</b>	
Purchased Services	363,698
Claims	2,247,930
Total Operating Expenses	2,611,628
Operating Loss	(72,501)
<b>Non-Operating Revenue</b>	
Interest Income	12,623
Change in Net Assets	(59,878)
Net Assets at Beginning of Year	341,805
Net Assets at End of Year	\$281,927

See accompanying notes to the basic financial statements

**Rolling Hills Local School District, Ohio**

*Statement of Cash Flows*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2007*

	<u>Medical-Dental-Prescription Self-Insurance</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Transactions with Other Funds	\$2,539,127
Cash Payments to Suppliers for Services	(363,698)
Cash Payments for Claims	<u>(2,227,985)</u>
Net Cash Used for Operating Activities	(52,556)
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	<u>12,623</u>
Net Decrease in Cash and Cash Equivalents	(39,933)
Cash and Cash Equivalents Beginning of Year	<u>565,960</u>
Cash and Cash Equivalents End of Year	<u><u>\$526,027</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
Operating Loss	(\$72,501)
<b>Changes in Liabilities</b>	
Increase in Claims Payable	<u>19,945</u>
Net Cash Used for Operating Activities	<u><u>(\$52,556)</u></u>

See accompanying notes to the basic financial statements

**Rolling Hills Local School District, Ohio**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2007*

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	Private Purpose Trust	Agency
	<hr/>	<hr/>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,940	\$23,732
Cash and Cash Equivalents in Segregated Accounts	0	9,202
Investments	7,908	0
	<hr/>	<hr/>
Total Assets	9,848	\$32,934
	<hr/>	<hr/>
<b>Liabilities</b>		
Undistributed Monies	0	\$18,113
Due to Students	0	14,821
	<hr/>	<hr/>
Total Liabilities	0	\$32,934
	<hr/>	<hr/>
<b>Net Assets</b>		
Held in Trust for Scholarships	\$9,848	
	<hr/>	

See accompanying notes to the basic financial statements



**Rolling Hills Local School District, Ohio**

*Statement of Changes in Fiduciary Net Assets*

*Fiduciary Fund*

*For the Fiscal Year Ended June 30, 2007*

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	Private Purpose Trust
<b>Additions</b>	
Interest	\$300
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	300
Change in Net Assets	0
Net Assets Beginning of Year	9,848
Net Assets End of Year	\$9,848

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See accompanying notes to the basic financial statements

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**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**Note 1 - Description of the School District and Reporting Entity**

Rolling Hills Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five member Board of Education. The School District provides educational services as authorized by its charter and further mandated by state and federal agencies. This Board controls the School District's six instructional support facilities staffed by 92 classified employees and 145 certificated teaching and administrative personnel who provide services to 1,976 students.

The Superintendent of Public Instruction declared the School District to be in a state of fiscal caution effective March 24, 2006. See Note 19 for more information.

*Reporting Entity*

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

Cherish Christian Academy operates within the School District boundaries. Current state legislation provides funding to this parochial school. These monies are received and disbursed by the School District on behalf of the parochial school and transportation is provided to their students. This activity is reflected in the Auxiliary Services Special Revenue Fund for financial reporting purposes.

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

The School District participates in five jointly governed organizations and two group insurance purchasing pools. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Mid-East Career and Technology Centers, the East Central Ohio Special Education Regional Resource Center, the Metropolitan Educational Council, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. Additional information concerning these organizations is presented in Notes 15 and 16.

**Rolling Hills Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

***A. Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District, however, has no business-type activities.

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

***B. Fund Accounting***

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

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**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 General Fund is the major fund of the School District.

**General Fund** The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

**Proprietary Fund Type** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

**Medical-Dental-Prescription Self-Insurance Internal Service Fund** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical/surgical, dental, and prescription drug claims.

**Fiduciary Fund Types** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's private purpose trust fund accounts for a college scholarship program for eligible students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds accounts for faculty, student managed activities, and payroll withholdings.

**C. Measurement Focus**

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

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

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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Like the government-wide statements, the proprietary 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 School District finances and meets the cash flow needs of its proprietary activity.

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

***D. Basis of Accounting***

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

***Revenues - Exchange and Non-Exchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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, fees, and rentals.

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds, except a portion of the private purpose trust fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

The School District has a segregated bank account for monies held separate from the School District's central bank account. This account maintains voluntary payroll deductions associated with the School District's flexible spending program. This interest bearing depository account is presented on the financial statements as "Cash and Cash Equivalents in Segregated Accounts" since it is not deposited into the School District treasury.

During fiscal year 2007, investments were limited to nonnegotiable certificates of deposit which are reported at cost and STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$114,106, which includes \$53,142 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

***G. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories of governmental funds consist of expendable supplies held for consumption and donated and purchased food held for resale.

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**H. Capital Assets**

All of the School District's capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. 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 fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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>Estimated Lives</u>
Land Improvements	10-20 years
Buildings and Improvements	5-50 years
Furniture and Equipment	5-20 years
Vehicles	10 years

**I. Interfund Balances**

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

**J. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets include amounts required by Statute to be set-aside by the School District for the creation of a reserve for the purchase of textbooks and other instructional materials, a reserve for capital improvements, and unexpended grants restricted for the purchase of buses. See Note 18 for additional information regarding set-asides.

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. A liability is recorded for vacation eligible employees after one year of service with the School District.



**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave after seventeen years of current service for food service employees and nineteen years of current service for all other employees of the School District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which these payments will be paid.

***L. Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentive benefits 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. General obligation bonds are recognized as a liability on the governmental fund financial statements when due.

***M. Interfund Transactions***

Transfers within governmental activities on the government-wide statements are reported in the same manner as general revenues. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

***N. Fund Balance Reserves***

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**Rolling Hills Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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***O. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for music and athletic programs and federal and state grants restricted to expenditures for specified purposes. None of the School District's restricted net assets were restricted by enabling legislation.

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

***P. Operating Revenues and Expenses***

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

***Q. 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.

***R. Estimates***

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

***S. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been authorized to further allocate appropriations to the function and object level within each fund. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are not intended to be repaid.

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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

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

**Note 3 - Accountability and Compliance**

**A. Accountability**

Fund balances at June 30, 2007, included the following individual fund deficits:

<u>Special Revenue Funds:</u>	<u>Amount</u>
Food Service	\$63,976
Title I	54,781

The deficit in the Food Service Special Revenue Fund is due in part to a deficit cash balance, as well as adjustments for accrued liabilities. The School District is planning future increases to lunch prices and to reduce personnel expenses to address the deficit in the Food Service Special Revenue Fund. The deficit in the Title I Special Revenue Fund is due to adjustments for accrued liabilities.

The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**B. Compliance**

The Food Service Special Revenue Fund had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41, Revised Code in the amount of \$25,506.

The State Funded Capital Projects Fund had final appropriations in excess of final estimated resources plus available balances for the fiscal year ended June 30, 2007 contrary to Section 5705.39, Revised Code in the amount of \$114.

Ohio Rev. Code Section 5705.10 provides that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative cash balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had deficit cash balances contrary to Section 5705.10:

Special Revenue Funds:	
Title I	\$ 5,776
Title V	4,169

The School District will more closely monitor budgetary procedures pertaining to these violations in the future.

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**Note 4 - Budgetary Basis of Accounting**

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$1,264,570
Net Adjustment for Revenue Accruals	(8,777)
Net Adjustment for Expenditure Accruals	(226,924)
Beginning of Fiscal Year:	
Prepaid Items	93,579
End of Fiscal Year:	
Prepaid Items	(33,078)
Advances In	120,403
Advances Out	(63,283)
Encumbrances	(199,550)
Budget Basis	<u><u>\$946,940</u></u>

**Note 5 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

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

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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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 held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of Ohio Rev. Code Section 135.18;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

**Deposits** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,121,887 of the School District's bank balance of \$2,388,424 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**Investments** As of June 30, 2007, the School District had monies invested in STAROhio. The fair value of the investment in STAROhio is \$757,307 and the fund had an average maturity of 38.56 days at fiscal year end.

**Interest Rate Risk.** The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or permits the sale of negotiable instruments prior to maturity in accordance with the law. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment be purchased with the expectation that it will be held to maturity.

**Credit Risk.** STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District's policy does not address credit risk.

**Note 6 - Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at thirty-five 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 2007 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien on December 31, 2005, were levied after April 1, 2006, and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five 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 2007 (other than public utility property tax) represents the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 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 School District prior to June 30.

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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The County Treasurer collects property taxes on behalf of all taxing districts in the county, including Rolling Hills Local School District. The School District receives property taxes from Guernsey, Muskingum, and Noble Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal taxes which are measurable as of June 30, 2007 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 were levied to finance current fiscal year operations and are reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

At June 30, 2007, \$1,303,702 was available as an advance in the General Fund, \$21,105 was available in the Classroom Facilities Special Revenue Fund, and \$54,139 was available to the Debt Service Fund. The amount available as an advance at June 30, 2006, was \$1,319,276 in the General Fund, \$21,073 in the Classroom Facilities Special Revenue Fund, and \$62,809 in the Debt Service Fund.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$139,442,270	68.59%	\$163,211,730	75.89%
Public Utility Personal	10,714,950	5.27%	10,700,020	4.98%
General Business Personal	53,149,797	26.14%	41,137,923	19.13%
Total	<u>\$203,307,017</u>	<u>100.00%</u>	<u>\$215,049,673</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$29.30		 \$29.30	

**Note 7 - Receivables**

Receivables at June 30, 2007, consisted of property taxes, accounts (rent and student fees), interfund, and intergovernmental grants. 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. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

**Rolling Hills Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

A summary of principal items of intergovernmental receivables follows:

	Amounts
<b>Governmental Activities</b>	
CAFS	\$21,675
School Breakfast/Lunch Reimbursement	61,978
After School Demonstration Grant	11,152
Martha Holden Jennings Grant	34,373
IDEA Part B Grant	71,193
Title I Grant	125,483
Title I Neglected Grant	44,901
Title V Grant	7,839
Safe and Drug Free Schools Grant	11,132
Title II-D Grant	8,448
School Conflict Management Grant	500
ODJFS Reimbursements	38,100
Excess Cost Reimbursement	2,177
<b>Total</b>	<b>\$438,951</b>

**Note 8 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
<b>Nondepreciable Capital Assets</b>				
Land	\$214,502	\$0	\$0	\$214,502
<b>Depreciable Capital Assets</b>				
Land Improvements	679,518	9,720	0	689,238
Buildings and Improvements	17,828,227	6,387	0	17,834,614
Furniture and Equipment	1,583,823	24,020	(27,641)	1,580,202
Vehicles	1,493,642	0	(115,121)	1,378,521
Total at Historical Cost	21,585,210	40,127	(142,762)	21,482,575
Less Accumulated Depreciation				
Land Improvements	(157,532)	(30,794)	0	(188,326)
Buildings and Improvements	(6,278,090)	(368,779)	0	(6,646,869)
Furniture and Equipment	(1,210,871)	(49,654)	24,877	(1,235,648)
Vehicles	(901,148)	(94,707)	103,609	(892,246)
Total Accumulated Depreciation	(8,547,641)	(543,934) *	128,486	(8,963,089)
Depreciable Capital Assets, Net of Accumulated Depreciation	13,037,569	(503,807)	(14,276)	12,519,486
Governmental Activities Capital Assets, Net	\$13,252,071	(\$503,807)	(\$14,276)	\$12,733,988



**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$164,264
Special	31,325
Vocational	8,646
Support Services:	
Pupils	23,159
Instructional Staff	45,496
Administration	25,397
Fiscal	5,764
Operation and Maintenance of Plant	53,211
Pupil Transportation	126,958
Central	2,882
Extracurricular	26,988
Operation of Non-Instructional Services:	
Food Service Operations	<u>29,844</u>
 Total Depreciation Expense	 <u><u>\$543,934</u></u>

**Note 9 - Interfund Transfers and Balances**

Transfers made during fiscal year 2007 consist of the following transfers in and out:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$0	\$14,099
Miscellaneous Local Funds	14,099	0
Total	<u>\$14,099</u>	<u>\$14,099</u>

A transfer to the Miscellaneous Local Funds Special Revenue Fund of \$14,099 was made to help subsidize the operations of these activities and to move unrestricted monies to support these programs accounted for in separate funds.

Interfund balances at June 30, 2007, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>
	General
	<u>Fund</u>
<u>Interfund Payable</u>	
Other Governmental Funds	\$70,644

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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The interfund receivables reported in the General Fund of \$70,644 were for advances to the Food Service, Miscellaneous Local, and Title I Special Revenue Funds. The advances to the Food Service and Title I Special Revenue Funds are for cash advances in the amounts of \$57,507 and \$5,776, respectively. These cash advances were made to offset negative cash balances. The advance made to the Miscellaneous Local Special Revenue Fund in the amount of \$7,361 made during fiscal year 2006 and remains unpaid. This advance was made to cover expenditures as needed during fiscal year 2006.

**Note 10 - Risk Management**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted with Indiana Insurance, through Kennedy Insurance Agency, for property and fleet insurance. During fiscal year 2007, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 16). Coverage provided is as follows:

<u>Indiana Insurance Company</u>		
Commercial Property Coverage Blanket	\$41,285,930	
Equipment Breakdown Coverage	\$125,000	
Commercial Crime Coverage	\$5,000	
Computer Equipment Coverage	\$100,000	\$250 deductible
Commercial Inland Marine Coverage	\$377,391	\$250 deductible
Fleet Insurance:		
Liability	\$2,000,000	any one accident
Auto Medical Payments	\$5,000	any one accident
Uninsured Motorists	\$1,000,000	any one accident
Comprehensive	Cash Value	\$500 deductible
Collision	Cash Value	\$500 deductible
<u>Ohio School Plan</u>		
General Liability:		
Bodily Injury and Property Damage	\$1,000,000	each occurrence
Personal and Advertising Injury	\$1,000,000	each offense
Fire Damage	\$500,000	any one event
Medical Expense	\$10,000	each accident
General Aggregate	\$3,000,000	
Products Aggregate	\$1,000,000	
Employee Benefits Liability	\$1,000,000	
Aggregate	\$3,000,000	
Employers' Liability	\$1,000,000	
Errors and Omissions	\$1,000,000	\$2,500 deductible
Aggregate	\$3,000,000	\$2,500 deductible
Employment Practices	\$1,000,000	\$2,500 deductible
Aggregate	\$3,000,000	\$2,500 deductible
Excess Liability Coverage	\$2,000,000	

**Rolling Hills Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2007.

**B. Workers' Compensation**

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**C. Employee Medical Benefits**

The School District has elected to provide employee medical/surgical, dental, and prescription drug benefits through a self-insured plan. Medical Benefits serves as claims servicer for this coverage. The claims liability of \$244,100 reported in the internal service fund at June 30, 2007 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchases an aggregate stop-loss coverage policy in the amount of \$2,289,578 annually. In addition, the School District has contracted for an excess stop-loss coverage with a maximum allowable covered expense per individual of \$50,000 annually.

Changes in the fund's claims liability amount in fiscal years 2006 and 2007 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2006	\$250,400	\$2,273,360	\$2,299,605	\$224,155
2007	224,155	2,247,930	2,227,985	244,100

**Note 11 - Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Vacation can be accumulated to one year's worth of accrual plus ten days. Accumulated, unused vacation time, is paid to classified employees and administrators upon termination of employment. Teachers and administrators who work less than an eleven or twelve month basis do not earn vacation time.

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for classified employees, 240 days for certified employees and 260 days for administration. Upon retirement, all employees receive payment for one-fourth of their total sick leave accumulation.

***B. Insurance***

The School District provides life insurance and accidental death and dismemberment insurance to all full-time employees through Anthem Life Insurance Company in the amount of \$50,000.

***C. Retirement Incentive***

During the duration this benefit is offered, the School District provides all certified staff members who are eligible to retire under the State Teachers Retirement System of Ohio (STRS Ohio) and have at least five consecutive years of service with the School District, who elect to retire an incentive payment. However, written notice must have been given by May 15, 2007, of intent to accept the retirement incentive by June 30, 2007. The retirement incentive is \$40,000 paid in installments of \$8,000 per year for five years. Employees will receive one-fifth of their retirement incentive and half of their regular severance pay immediately after the employee received the last pay of their contract for the current school year and upon receipt of necessary documentation from STRS Ohio. The employee will then receive the second half of their regular severance pay and one-fifth of their retirement incentive by July 15 of the next calendar year. All subsequent installments will be paid by July 15 for the next three years. This is the second fiscal year in a row that the School District has offered this retirement incentive.

**Note 12 - Defined Benefit Pension Plans**

***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (800) 878-5853, or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$219,934, \$216,980, and \$253,594, respectively; 43 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio 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 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://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 member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members are required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005, were \$875,445, \$1,195,197, and \$935,688, respectively; 81 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$157 made by the School District and \$9,987 made by the plan members.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007 one member of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Rolling Hills Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 13 - Postemployment Benefits**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$67,342 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including surcharge, during the 2007 fiscal year equaled \$103,706.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premiums contributions for the next year. Expenses for health care at June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants eligible to receive benefits.

**Rolling Hills Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

**Note 14 - Long-Term Obligations**

The changes in the School District's long-term obligations during the year consist of the following:

	Outstanding 6/30/2006	Additions	Reductions	Outstanding 6/30/2007	Amounts Due Within One Year
<b>Governmental Activities</b>					
1985 School Facilities Improvement -					
9% General Obligation Bonds	\$975,000	\$0	\$325,000	\$650,000	\$325,000
Retirement Incentive	480,000	200,000	96,000	584,000	120,000
Compensated Absences Payable	875,716	97,418	81,324	891,810	68,741
Total Governmental Activities					
Long-Term Liabilities	<u>\$2,330,716</u>	<u>\$297,418</u>	<u>\$502,324</u>	<u>\$2,125,810</u>	<u>\$513,741</u>

The 1985 School Facilities Improvement bonds were originally issued in the amount of \$7,435,000 for the purpose of constructing a high school, together with necessary parking, access roads and landscaping; acquiring and improving an existing school building; remodeling, improving and making additions to existing school buildings; and providing a sewage treatment plant, water service, furnishings and equipment for such school buildings. The bonds are being retired by the Debt Service Fund from the collection of property taxes.

Compensated absences will be paid from the fund in which the employees' salaries are paid. These funds include the General Fund and the Food Service, Miscellaneous Local, Title I, and Miscellaneous Federal Grants Special Revenue Funds.

The retirement incentive is only offered to certified staff, and the entire liability will be paid by the General Fund.

Principal and interest requirements to retire the long-term general obligation bonds outstanding at June 30, 2007, are as follows:

Fiscal Year	Principal	Interest	Total
2008	\$325,000	\$43,875	\$368,875
2009	325,000	14,625	339,625
Totals	<u>\$650,000</u>	<u>\$58,500</u>	<u>\$708,500</u>

Payments to retire the retirement incentive payable liability outstanding at June 30, 2007, are as follows:

Fiscal Year	Payment
2008	\$136,000
2009	136,000
2010	136,000
2011	136,000
2012	40,000
Total	<u>\$584,000</u>

**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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The overall debt margin of the School District as of June 30, 2007, was \$15,322,639, with an unvoted debt margin of \$172,154.

**Note 15 - Jointly Governed Organizations**

***A. Ohio Mid-Eastern Regional Educational Service Agency***

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA includes school districts from 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. OME-RESA is governed by a governing board which is selected by the member districts. OME-RESA possesses its own budgeting authority. The School District's payment for computer services to OME-RESA in fiscal year 2007 was \$55,257. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

***B. Mid-East Career and Technology Centers***

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the vocational school is not dependent on the School District's continued participation and no equity interest exists.

To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

***C. East Central Ohio Special Education Regional Resource Center (ECO SERRC)***

The School District participates in East Central Ohio Special Education Regional Resource Center (ECO SERRC), which is a special education regional resource center that selects its own board, adopts its own budget, and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO SERRC is governed by a board composed of superintendents of member school districts in east central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO SERRC. ECO SERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for ECO SERRC. During fiscal year 2007, the School District made no payments to ECO SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Education Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.



**Rolling Hills Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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***D. Metropolitan Educational Council***

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 100 members which includes school district, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the cost

of administering the program. The School District's membership payment to MEC for fiscal year 2007 was \$793. Financial information may be obtained from the Metropolitan Educational Council, Fiscal Officer, at 6100 Channingway Blvd, Suite 604, Columbus, Ohio 43232.

***E. Coalition of Rural and Appalachian Schools***

The School District participates in the Coalition of Rural and Appalachian Schools, a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. The School District's membership fee was \$300 for fiscal year 2007.

**Note 16 - Insurance Purchasing Pools**

***A. Ohio School Boards Association Workers' Compensation Group Rating Plan***

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

***B. Ohio School Plan***

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**Rolling Hills Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 17 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

**B. Litigation**

The School District is currently not a party to any legal proceedings.

**Note 18 - Set Asides**

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance		
as of June 30, 2006	\$545,660	\$187,129
Current Year Set-aside Requirement	307,471	307,471
Current Year Offsets	0	(80,479)
Qualifying Disbursements	<u>(176,629)</u>	<u>(185,450)</u>
Total	<u>\$676,502</u>	<u>\$228,671</u>
Set-aside Balance Carried Forward		
to Future Fiscal Years	<u>\$676,502</u>	<u>\$228,671</u>

**Rolling Hills Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 19 - Fiscal Caution**

The School District was placed in Fiscal Caution on March 24, 2006, by the Ohio Department of Education. The School District submitted a proposal to the Ohio Department of Education on May 24, 2006, to avoid a potential deficit in future fiscal years. The Ohio Department of Education accepted the proposal on June 14, 2006.

The School District implemented an expenditure reduction plan during fiscal years 2006 and 2007 which included a reduction in force, retirements, and resignations. The School District reduced expenditures by eliminating bus routes, eliminating summer school, reducing supplies, and implementing pay to play. The School District also did not give raises or step increases for fiscal year 2006 for teachers and administrators.

In November, 2006, the School District passed a renewal of their General Emergency Levy. The collections for this levy will begin in calendar year 2008.

The five year forecast submitted to the Ohio Department of Education on October 12, 2007, reflected a positive General Fund balance for fiscal years 2008 through 2012.

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**ROLLING HILLS LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Food Donation	10.550	N/A	\$	\$ 44,829	\$	\$ 44,829
Child Nutrition Cluster:						
School Breakfast Program	10.553	05PU-2006 05PU-2007	33,035 79,492		33,035 79,492	
Total School Breakfast Program			<u>112,527</u>	<u>0</u>	<u>112,527</u>	<u>0</u>
National School Lunch Program	10.555	LLP4-2006 LLP4-2007 LLP1-2007	93,643 249,027 458		93,643 249,027 458	
Total National School Lunch Program			<u>343,128</u>	<u>0</u>	<u>343,128</u>	<u>0</u>
Total Child Nutrition Cluster			<u>455,655</u>	<u>0</u>	<u>455,655</u>	<u>0</u>
Total United States Department of Agriculture			<u>455,655</u>	<u>44,829</u>	<u>455,655</u>	<u>44,829</u>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2006 C1S1-2007 C1SN-2002 C1SN-2006 C1SN-2007	100,345 498,565 (11) (2,198) 54,444		145,080 506,536  52,246	
Total Title I Grants to Local Educational Agencies			<u>651,145</u>	<u>0</u>	<u>703,862</u>	<u>0</u>
Special Education - Grants to States	84.027	6BSF-2004 6BSF-2006 6BSF-2007	(400) 19,545 531,253		23,829 518,737	
Total Special Education - Grants to States			<u>550,398</u>	<u>0</u>	<u>542,566</u>	<u>0</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2001 DRS1-2005 DRS1-2006	(48) 7,415 9,823		7,915 9,103	
Total Safe and Drug-Free Schools and Communities - State Grants			<u>17,190</u>	<u>0</u>	<u>17,018</u>	<u>0</u>
State Grants for Innovative Program	84.298	C2S1-2005 C2S1-2006 C2S1-2007	(874) 5,399 691		6,802 6,540	
Total State Grants for Innovative Program			<u>5,216</u>	<u>0</u>	<u>13,342</u>	<u>0</u>
Education Technology State Grants	84.318	TJS1-2006 TJS1-2007	2,820 5,020		4,363 3,959	
Total Education Technology State Grants			<u>7,840</u>	<u>0</u>	<u>8,322</u>	<u>0</u>
Improving Teacher Quality State Grants	84.367	TRS1-2005 TRS1-2006 TRS1-2007	(415) (17,267) 165,500		(17,267) 165,500	
Total Improving Teacher Quality State Grants			<u>147,818</u>	<u>0</u>	<u>148,233</u>	<u>0</u>
Total United States Department of Education			<u>1,379,607</u>	<u>0</u>	<u>1,433,343</u>	<u>0</u>
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed through Guernsey County Department of Job and Family Services:</i>						
Medical Assistance Program:						
After School Demonstration	93.558	N/A	<u>32,598</u>		<u>32,598</u>	
Total United States Department of Health and Human Services			<u>32,598</u>	<u>0</u>	<u>32,598</u>	<u>0</u>
<b>UNITED STATES DEPARTMENT OF HOMELAND SECURITY</b>						
<i>Passed through the Ohio Emergency Management Agency:</i>						
Public Assistance Grants	97.036	1556-DR-059-012D6	<u>146,879</u>		<u>41,639</u>	
Total United States Department of Homeland Security			<u>146,879</u>	<u>0</u>	<u>41,639</u>	<u>0</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$ 2,014,739</u></b>	<b><u>\$ 44,829</u></b>	<b><u>\$ 1,963,235</u></b>	<b><u>\$ 44,829</u></b>

*The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.*

**ROLLING HILLS LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE C – FOOD DONATION PROGRAM**

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

**NOTE D – TRANSFERS**

During fiscal year 2007, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. A detailed listing of the carryovers is as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	C1S1-2006	\$ 23,459	
84.010	Title I Grants to Local Educational Agencies	C1S1-2007		\$ 23,459
84.027	Special Education - Grants to States	6BSF-2006	73,872	
84.027	Special Education - Grants to States	6BSF-2007		73,872
84.367	Improving Teacher Quality State Grants	TRS1-2006	19,033	
84.367	Improving Teacher Quality State Grants	TRS1-2007		19,033
		Totals	<u>\$ 116,364</u>	<u>\$ 116,364</u>



# 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*

Rolling Hills Local School District  
Guernsey County  
P.O. Box 38  
Byesville, Ohio 43723

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 the Rolling Hills Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 29, 2008, wherein we noted the School District is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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

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

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

We noted certain matters that we reported to the School District's management in a separate letter dated February 29, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's basic 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 did note certain noncompliance or other matters that we reported to the School District's management in a separate letter dated February 29, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

February 29, 2008





# 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

Rolling Hills Local School District  
Guernsey County  
P.O. Box 38  
Byesville, Ohio 43723

To the Board of Education:

### Compliance

We have audited the compliance of the Rolling Hills Local School District, Guernsey County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

### Internal Control Over Compliance

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated February 29, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

February 29, 2008

**ROLLING HILLS LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
FOR THE YEAR ENDED JUNE 30, 2007**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster - CFDA #'s 10.553 and 10.555 Special Education – Grants to States - CFDA # 84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**ROLLING HILLS LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .315 (b)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2006-001	Ohio Rev. Code Section 5705.10(H) – Negative fund balances	No	Not Corrected. Repeated in the management letter.



**Mary Taylor, CPA**  
Auditor of State

**ROLLING HILLS LOCAL SCHOOL DISTRICT**

**GUERNSEY 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  
APRIL 3, 2008**