



Mary Taylor, CPA
Auditor of State

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Rock Hill Local School District
Lawrence County
2325A County Road 26
Ironton, Ohio 45638

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 Rock Hill Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2008, 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 Rock Hill Local School District, Lawrence County, Ohio, as of June 30, 2008, and the respective changes in financial position, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2009, 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.

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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

May 11, 2009

Rock Hill Local School District, Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008 Unaudited

The discussion and analysis of the Rock Hill 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, 2008. 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 financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2008 are as follows:

- In total, net assets of governmental activities decreased \$2,528,360, which represents a 4.7% decrease from 2007.
- General revenues accounted for \$15,412,635 in revenue or 76.0 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,880,490 or 24.0 percent of total revenues of \$20,293,125.
- Total assets of governmental activities decreased \$2,456,598.

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 as the School District's most significant funds with all other non-major funds presented in total in one column.

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 2008?" 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 account 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, debt service, and extracurricular activities.

Rock Hill Local School District, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. 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 funds. The School District's major governmental funds are the General Fund and the Permanent Improvements Fund.

Governmental Funds All 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.

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 2008 compared to 2007.

Table 1
Net Assets

	Governmental Activities		
	2008	Restated 2007	Change
Assets			
Current and Other Assets	\$15,402,938	\$17,475,884	(\$2,072,946)
Capital Assets	40,115,330	40,498,982	(383,652)
Total Assets	55,518,268	57,974,866	(2,456,598)
Liabilities			
Long-Term Liabilities	1,069,558	883,376	186,182
Other Liabilities	3,749,644	3,864,064	(114,420)
Total Liabilities	4,819,202	4,747,440	71,762
Net Assets			
Invested in Capital Assets	40,115,330	40,498,982	(383,652)
Restricted	9,105,888	10,230,275	(1,124,387)
Unrestricted	1,477,848	2,498,169	(1,020,321)
Total Net Assets	\$50,699,066	\$53,227,426	(\$2,528,360)

Total assets of governmental activities decreased \$2,456,598 primarily as a result of decreases in revenue in lieu of taxes receivable, cash, and the depreciation of capital assets in an amount greater than the addition of capital assets. These decreases are partially offset by an increase in amounts due from other governments. The decreases noted in cash are the result of the continued construction of the softball field and the elementary playground.

Rock Hill Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

Total liabilities increased \$71,762. This is mainly due to the increases in accrued wages and benefits payable resulting from higher insurance costs.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008, and comparisons to fiscal year 2007.

**Table 2
Changes in Net Assets**

	Governmental Activities		Change
	2008	2007	
Revenues			
Program Revenues:			
Charges for Services	\$1,176,403	\$440,129	\$736,274
Operating Grants and Contributions	3,670,299	4,599,083	(928,784)
Capital Grants and Contributions	33,788	35,951	(2,163)
	<u>4,880,490</u>	<u>5,075,163</u>	<u>(194,673)</u>
General Revenues:			
Property Taxes	2,239,335	1,815,494	423,841
Grants and Entitlements	12,880,310	10,823,856	2,056,454
Investment Earnings	174,919	282,123	(107,204)
Miscellaneous	112,571	127,387	(14,816)
Payment in Lieu of Taxes	0	860,250	(860,250)
Gain on Sale of Capital Assets	5,500	0	5,500
	<u>15,412,635</u>	<u>13,909,110</u>	<u>1,503,525</u>
Total Revenues	<u>20,293,125</u>	<u>18,984,273</u>	<u>1,308,852</u>
Program Expenses			
Instruction:			
Regular	9,758,479	7,884,748	(1,873,731)
Special	3,032,615	2,698,233	(334,382)
Vocational	257,332	361,696	104,364
Support Services:			
Pupils	500,070	496,819	(3,251)
Instructional Staff	692,759	667,793	(24,966)
Board of Education	199,270	241,195	41,925
Administration	1,449,476	1,227,006	(222,470)
Fiscal	358,562	314,292	(44,270)
Operation and Maintenance of Plant	3,105,046	2,933,262	(171,784)
Pupil Transportation	1,454,584	1,292,137	(162,447)
Central	60,480	48,075	(12,405)
Food Service Operations	1,400,812	1,244,109	(156,703)
Extracurricular Activities	552,000	493,925	(58,075)
Total Expenses	<u>22,821,485</u>	<u>19,903,290</u>	<u>(2,918,195)</u>
Decrease in Net Assets	(2,528,360)	(919,017)	(1,609,343)
Net Assets at Beginning of Year - Restated	<u>53,227,426</u>	<u>50,131,943</u>	<u>3,095,483</u>
Net Assets at End of Year	<u>\$50,699,066</u>	<u>\$49,212,926</u>	<u>\$1,486,140</u>

Governmental Activities

Property taxes made up approximately 11.0 percent of revenues for governmental activities for the School District. Of the remaining revenues, the School District receives 81.7 percent from state foundation, federal, and state grants; 5.8 percent from charges for services; and 1.5 percent from interest and local entities.

Rock Hill Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

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 overall revenue generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increases in value is comparable to other property owners) the effective tax rate would become 0.5 mills and the owner would still pay \$35.00. This legislation helps explain the relatively sizable increase in the District's taxable value accompanied by the relatively small increase in tax revenue. Property taxes made up just 11.0 percent of revenues for governmental activities for the Local School District in 2008. Additionally, increases in property taxes would only have a nominal effect upon the School District's total revenue. This is due to the funding formula in place in Ohio, any increase in property tax revenue would be offset by a corresponding decrease in state funding the School District would receive.

Approximately 57.2 percent of the School District's budget is used to fund instructional expenses. Support services make up 34.3 percent of expenses and 8.5 percent is used for extracurricular activities and non-instructional services.

During the fiscal year, the School District experienced changes in the following: a 10.9 percent increase in employee insurance costs, a negotiated 3.0 percent salary increase, increased workers' compensation costs, as well as increases in utility and fuel costs.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

**Table 3
Governmental Activities**

	2008 Total Cost of Services	2008 Net Cost of Services	2007 Total Cost of Services	2007 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$9,758,479	\$7,706,397	\$7,884,748	\$5,660,008
Special	3,032,615	1,647,459	2,698,233	1,203,729
Vocational	257,332	159,516	361,696	299,661
Support Services:				
Pupils	500,070	467,109	496,819	459,544
Instructional Staff	692,759	368,067	667,793	366,611
Board of Education	199,270	197,887	241,195	240,353
Administration	1,449,476	1,449,434	1,227,006	1,226,965
Fiscal	358,562	274,385	314,292	305,734
Operation and Maintenance of Plant	3,105,046	3,073,146	2,933,262	2,844,131
Pupil Transportation	1,454,584	1,377,022	1,292,137	1,189,340
Central	60,480	53,988	48,075	41,694
Food Service Operations	1,400,812	679,680	1,244,109	549,880
Extracurricular Activities	552,000	486,905	493,925	440,477
Totals	\$22,821,485	\$17,940,995	\$19,903,290	\$14,828,127

Rock Hill Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 67.5 percent of total expenses are supported through taxes and other general revenues.

THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$20,428,256 and expenditures of \$22,251,651. Fund balances experienced significant reductions due to revenues not keeping pace with expenditures, particularly in the General Fund and the Permanent Improvements Fund, but again, this is attributable to increases in personal services costs and to the School District's continued commitment to improving our campus and its facilities, respectively.

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.

During the course of fiscal 2008, estimated revenues and appropriations were amended numerous times. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, final budget basis revenue was \$15,062,347, which represented a 3.9 percent increase from original estimates of \$14,490,218. Final budget basis expenditures of \$16,325,560, which represented a 12 percent decrease from original appropriations of \$18,554,581.

The School District's ending unobligated general fund balance was \$3,319,271.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, the School District had \$40,115,330 invested in land, construction in progress, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles. Table 4 shows fiscal year 2008 balances compared to 2007.

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

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Land	\$817,657	\$817,657
Construction in Progress	1,566,985	747,723
Land Improvements	7,235,062	7,587,804
Buildings and Improvements	29,052,824	30,206,582
Furniture, Fixtures, and Equipment	677,390	747,919
Vehicles	765,412	391,297
Totals	<u>\$40,115,330</u>	<u>\$40,498,982</u>

For additional information on capital assets, see Note 11 to the basic financial statements.

Rock Hill Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

Debt

At June 30, 2008, the School District had no debt outstanding. For additional information on long-term liabilities, see Note 15 to the basic financial statements.

CURRENT ISSUES

The financial future of the School District is not without its challenges. These challenges are external and internal in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes to fund its operations. Due to slow economic growth, the School District does not foresee any sustainable growth in revenue from property taxes. Thus management must diligently plan expenses from the modest growth attained, staying carefully within its five-year forecast. Additional revenues from what was estimated must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast.

Externally, the School District is largely dependent on State funding sources (nearly 81 percent of the School District's operating funds come from State foundation payments and other entitlements). State foundation revenue is fundamentally a function of student enrollment and a district's property tax wealth. The School District has seen a slight decline in student enrollment in recent years and while State revenue growth has shifted toward school districts with low property tax wealth, declining enrollment has served to somewhat offset any increase in State funding.

Although higher per-pupil funding has helped the School District lessen the impact of increased instructional expenses, much of the positive impact has been offset by other negative financial factors that occurred in the past year (decreasing enrollment, higher instructional costs, and salary increases). In the long run, the fact is that as long as the State avoids the complete systematic overhaul the Supreme Court ordered in its initial ruling, all schools in Ohio will be faced with the same problem in the future – either increasing its revenues (passing levies) or decreasing its expenses (making budget cuts).

As the preceding information shows, the School District depends upon its taxpayers. Although the School District has tightened spending to better bring expenses in line with revenues, and carefully watched financial planning, this must continue if the School District hopes to remain on firm financial footing.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, 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 Chris Robinson, Treasurer at Rock Hill Local School District, 2273 County Road 26, Ironton, Ohio 45638.

Rock Hill Local School District, Ohio

Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$9,467,231
Materials and Supplies Inventory	13,435
Prepaid Items	9,384
Intergovernmental Receivable	628,925
Revenue in Lieu of Taxes Receivable	3,441,000
Notes Receivable	100,000
Accounts Receivable	1,126
Property Taxes Receivable	1,741,837
Nondepreciable Capital Assets	2,384,642
Depreciable Capital Assets, Net	<u>37,730,688</u>
<i>Total Assets</i>	<u>55,518,268</u>
Liabilities	
Accounts Payable	174,914
Accrued Wages and Benefits Payable	1,697,189
Contracts Payable	71,264
Intergovernmental Payable	499,630
Matured Compensated Absences Payable	8,006
Retainage Payable	22,735
Deferred Revenue	1,275,906
Long-Term Liabilities:	
Due within One Year	64,439
Due in More than One Year	<u>1,005,119</u>
<i>Total Liabilities</i>	<u>4,819,202</u>
Net Assets	
Invested in Capital Assets	40,115,330
Restricted for:	
Bus Purchases	300,293
Budget Stabilization	124,918
Debt Service	1,950
Capital Projects	7,234,691
Other Purposes	1,444,036
Unrestricted	<u>1,477,848</u>
<i>Total Net Assets</i>	<u><u>\$50,699,066</u></u>

See accompanying notes to the basic financial statements

Rock Hill Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June, 30, 2008

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$9,758,479	\$850,011	\$1,202,071	\$0	(\$7,706,397)
Special	3,032,615	169,794	1,215,362	0	(1,647,459)
Vocational	257,332	0	97,816	0	(159,516)
Support Services:					
Pupils	500,070	0	32,961	0	(467,109)
Instructional Staff	692,759	4,138	320,554	0	(368,067)
Board of Education	199,270	1,383	0	0	(197,887)
Administration	1,449,476	42	0	0	(1,449,434)
Fiscal	358,562	317	83,860	0	(274,385)
Operation and Maintenance of Plant	3,105,046	9,000	22,900	0	(3,073,146)
Pupil Transportation	1,454,584	72	43,702	33,788	(1,377,022)
Central	60,480	0	6,492	0	(53,988)
Operation of Non-Instructional Services:					
Food Service Operations	1,400,812	76,551	644,581	0	(679,680)
Extracurricular Activities	552,000	65,095	0	0	(486,905)
Totals	\$22,821,485	\$1,176,403	\$3,670,299	\$33,788	(17,940,995)
General Revenues					
Property Taxes Levied for:					
General Purposes					2,197,407
Other Purposes					41,928
Grants and Entitlements not Restricted to Specific Programs					12,880,310
Investment Earnings					174,919
Miscellaneous					112,571
Gain on Sale of Capital Assets					5,500
<i>Total General Revenues</i>					<u>15,412,635</u>
<i>Change in Net Assets</i>					(2,528,360)
<i>Net Assets at Beginning of Year - Restated (See Note 3)</i>					<u>53,227,426</u>
<i>Net Assets at End of Year</i>					<u>\$50,699,066</u>

See accompanying notes to the basic financial statements

Rock Hill Local School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2008*

	<u>General</u>	<u>Permanent Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$3,744,456	\$3,721,431	\$1,588,509	\$9,054,396
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	412,835	0	0	412,835
Receivables:				
Property Taxes	1,710,453	0	31,384	1,741,837
Revenue in Lieu of Taxes	0	3,441,000	0	3,441,000
Accounts	1,076	0	50	1,126
Intergovernmental	14,314	0	614,611	628,925
Interfund	33,386	0	0	33,386
Notes	0	100,000	0	100,000
Materials and Supplies Inventory	0	0	13,435	13,435
Prepaid Items	9,384	0	0	9,384
Total Assets	<u>\$5,925,904</u>	<u>\$7,262,431</u>	<u>\$2,247,989</u>	<u>\$15,436,324</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$158,617	\$0	\$16,297	\$174,914
Accrued Wages and Benefits Payable	1,352,399	0	344,790	1,697,189
Contracts Payable	14,658	56,606	0	71,264
Intergovernmental Payable	396,238	0	103,392	499,630
Matured Compensated Absences Payable	8,006	0	0	8,006
Retainage Payable	0	22,735	0	22,735
Interfund Payable	0	0	33,386	33,386
Deferred Revenue	1,516,645	3,441,000	587,654	5,545,299
Total Liabilities	<u>3,446,563</u>	<u>3,520,341</u>	<u>1,085,519</u>	<u>8,052,423</u>
Fund Balances				
Reserved for Encumbrances	582,843	214,067	82,753	879,663
Reserved for Budget Stabilization	124,918	0	0	124,918
Reserved for Bus Purchases	300,293	0	0	300,293
Reserved for Property Taxes	193,808	0	3,368	197,176
Reserved for Notes	0	75,000	0	75,000
Unreserved, Undesignated, Reported in:				
General Fund	1,277,479	0	0	1,277,479
Special Revenue Funds	0	0	1,022,798	1,022,798
Debt Service Fund	0	0	1,950	1,950
Capital Projects Funds	0	3,453,023	51,601	3,504,624
Total Fund Balances	<u>2,479,341</u>	<u>3,742,090</u>	<u>1,162,470</u>	<u>7,383,901</u>
Total Liabilities and Fund Balances	<u>\$5,925,904</u>	<u>\$7,262,431</u>	<u>\$2,247,989</u>	<u>\$15,436,324</u>

See accompanying notes to the basic financial statements

Rock Hill Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2008*

Total Governmental Fund Balances		\$7,383,901
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital Assets used in governmental activities are not financial resources are not reported in the funds.		40,115,330
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Property Taxes	268,755	
Revenue in Lieu of Taxes	3,441,000	
Grants	<u>559,638</u>	4,269,393
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.		<u>(1,069,558)</u>
Net Assets of Governmental Activities		<u><u>\$50,699,066</u></u>
 See accompanying notes to the basic financial statements		

Rock Hill Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Permanent Improvements	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$2,188,372	\$0	\$42,167	\$2,230,539
Intergovernmental	12,771,498	0	3,388,826	16,160,324
Investment Earnings	169,096	5,000	823	174,919
Tuition and Fees	982,344	0	1,119	983,463
Charges for Services	0	0	76,551	76,551
Extracurricular Activities	0	0	101,255	101,255
Revenue in Lieu of Taxes	0	573,500	0	573,500
Miscellaneous	121,705	0	6,000	127,705
<i>Total Revenues</i>	<u>16,233,015</u>	<u>578,500</u>	<u>3,616,741</u>	<u>20,428,256</u>
Expenditures				
Current:				
Instruction:				
Regular	6,874,447	0	2,164,538	9,038,985
Special	2,327,354	0	379,079	2,706,433
Vocational	231,797	0	0	231,797
Support Services:				
Pupils	424,038	0	31,086	455,124
Instructional Staff	359,118	0	255,453	614,571
Board of Education	269,463	0	1,000	270,463
Administration	1,325,515	0	0	1,325,515
Fiscal	333,112	0	3,177	336,289
Operation and Maintenance of Plant	2,895,952	466,782	17,184	3,379,918
Pupil Transportation	1,469,231	182,920	0	1,652,151
Central	53,988	0	6,492	60,480
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,260,502	1,260,502
Extracurricular Activities	235,006	0	116,459	351,465
Capital Outlay	0	567,958	0	567,958
<i>Total Expenditures</i>	<u>16,799,021</u>	<u>1,217,660</u>	<u>4,234,970</u>	<u>22,251,651</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(566,006)</u>	<u>(639,160)</u>	<u>(618,229)</u>	<u>(1,823,395)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	5,500	0	5,500
Transfers In	0	0	560,762	560,762
Transfers Out	(560,762)	0	0	(560,762)
<i>Total Other Financing Sources (Uses)</i>	<u>(560,762)</u>	<u>5,500</u>	<u>560,762</u>	<u>5,500</u>
<i>Net Change in Fund Balance</i>	(1,126,768)	(633,660)	(57,467)	(1,817,895)
<i>Fund Balances at Beginning of Year</i>	<u>3,606,109</u>	<u>4,375,750</u>	<u>1,219,937</u>	<u>9,201,796</u>
<i>Fund Balances at End of Year</i>	<u>\$2,479,341</u>	<u>\$3,742,090</u>	<u>\$1,162,470</u>	<u>\$7,383,901</u>

See accompanying notes to the basic financial statements

Rock Hill Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2008*

Net Change in Fund Balances - Total Governmental Funds (\$1,817,895)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions	1,572,707	
Depreciation Expense	<u>(1,956,359)</u>	(383,652)

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

Grants	424,073	
Delinquent Taxes	8,796	
Revenue in Lieu of Taxes	<u>(573,500)</u>	(140,631)

Compensated absences 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.

(186,182)

Change in Net Assets of Governmental Activities

(\$2,528,360)

See accompanying notes to the basic financial statements

Rock Hill Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
General Fund
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$1,838,008	\$2,069,487	\$2,069,487	\$0
Intergovernmental	11,889,386	12,329,988	12,757,184	427,196
Investment Earnings	288,793	170,360	170,360	0
Tuition and Fees	167,340	342,033	982,344	640,311
Miscellaneous	306,691	150,479	150,479	0
<i>Total Revenues</i>	<u>14,490,218</u>	<u>15,062,347</u>	<u>16,129,854</u>	<u>1,067,507</u>
Expenditures				
Current:				
Instruction:				
Regular	6,840,910	5,841,418	6,908,925	(1,067,507)
Special	2,500,230	2,270,759	2,270,759	0
Vocational	357,363	312,733	312,733	0
Support Services:				
Pupils	553,974	424,259	424,259	0
Instructional Staff	412,464	356,462	356,462	0
Board of Education	605,064	454,289	454,289	0
Administration	1,360,184	1,308,042	1,308,042	0
Fiscal	375,282	347,371	347,371	0
Operation and Maintenance of Plant	3,466,090	3,157,493	3,157,493	0
Pupil Transportation	1,751,332	1,520,724	1,520,724	0
Central	59,402	78,988	78,988	0
Extracurricular Activities	272,286	253,022	253,022	0
<i>Total Expenditures</i>	<u>18,554,581</u>	<u>16,325,560</u>	<u>17,393,067</u>	<u>(1,067,507)</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(4,064,363)</u>	<u>(1,263,213)</u>	<u>(1,263,213)</u>	<u>0</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	67,130	0	0	0
Transfers Out	(842,288)	(560,762)	(560,762)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(775,158)</u>	<u>(560,762)</u>	<u>(560,762)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(4,839,521)	(1,823,975)	(1,823,975)	0
<i>Fund Balance at Beginning of Year</i>	3,948,599	3,948,599	3,948,599	0
Prior Year Encumbrances Appropriated	1,194,647	1,194,647	1,194,647	0
<i>Fund Balance at End of Year</i>	<u>\$303,725</u>	<u>\$3,319,271</u>	<u>\$3,319,271</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

Rock Hill Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$29,709</u></u>
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Liabilities

Due to Students	<u><u>\$29,709</u></u>
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See accompanying notes to the basic financial statements

Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 1 - Description of the School District and Reporting Entity

Rock Hill 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 form of government and provides educational services as authorized by State statute and federal guidelines. This Board of Education controls the School District's four instructional/support facilities staffed by 106 classified employees and 163 certified teaching and administrative personnel who provide services to 1,777 students and other community members.

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 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, preschool, vocational, and student related activities of the School District.

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 the South Central Ohio Computer Association and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program and the Lawrence County Schools Insurance Purchasing Consortium, which are defined as insurance purchasing pools. These organizations are presented in Notes 16 and 17.

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 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.

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 the fiduciary fund. The statements usually distinguish between those activities that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). 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, with certain limited exceptions. 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. 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 two categories of funds utilized by the School District: governmental and fiduciary.

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

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.

Permanent Improvements Fund The Permanent Improvements Fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

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

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of 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 accounts for increases (revenues) and decreases (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 (revenues and other financing sources) and uses (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 fund financial statements for governmental funds.

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. 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 sixty days of fiscal year end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 fiscal year when the resources are required to be used or the fiscal 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 non-exchange 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, payment in lieu of taxes revenue, investment earnings, tuition, grants, and student fees.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

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

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 are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2008, investments were limited to a repurchase agreement which is reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest is credited to the General Fund and the Permanent Improvements and Classroom Facilities Funds. Interest revenue credited to the General Fund during fiscal year 2008 amounted to \$169,096, which includes \$91,277 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented as cash and cash equivalents.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets include unexpended revenues restricted for the purchase of buses and amounts required by State statute to be set-aside by the School District for budget stabilization. See Note 21 for additional information regarding set-asides.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, 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 the services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of expendable supplies held for consumption and donated and purchased food.

I. Capital Assets

All of the School District's capital assets are general capital assets resulting 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.

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 certain assets by backtrending (i.e., estimating the 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 capital 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 capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful life of the related capital asset. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	5-8 years

J. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide statements. Internal allocations of overhead expenses from one function to another or within the same function 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.

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.

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 for employees after ten years of current service with 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 reported as "matured compensated absences payable" in the fund from which the employees who will receive the payment are paid.

Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

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 and compensated absences that are 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 fiscal year.

M. 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, property taxes, bus purchases, budget stabilization, and notes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for notes represents that portion of notes receivable that is not expected to be collected in the next fiscal year and, therefore, is not available for appropriation.

N. Interfund Balances

Interfund receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

O. Estimates

The preparation of the 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.

P. 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.

The government-wide statement of net assets reports \$9,105,888 of restricted net assets, of which none is restricted by enabling legislation.

Net assets restricted for other purposes include resources restricted for food service operations and music and athletic programs, and federal and state grants restricted for specific purposes.

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

Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Q. Budgetary Process

All funds, other than the 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. The Treasurer has been authorized to allocate appropriations to the function and object levels.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed. Prior to June 30, the Board requested and received an amended certificate in which estimated revenue equaled actual revenue.

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. 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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to June 30, the Board passed an appropriation resolution which matched actual expenditures during the fiscal year plus encumbrances outstanding at fiscal year end.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

Note 3 - Change in Accounting Principles and Restatement of Net Assets

A. Change in Accounting Principles

For the fiscal year ended June 30, 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions"; GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"; and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the School Employees Retirement System and the State Teachers Retirement System of Ohio post employment healthcare plans in the amount of \$47,588 and \$13,747, respectively, which are the same as the previously reported liabilities.

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

B. Restatement of Net Assets

During 2008, the School District determined that the Net Assets (specifically Restricted for Capital Projects) were understated by \$4,014,500. This was due to Revenue in Lieu of Taxes Receivable being recorded as Deferred Revenue instead of being recognized as revenue. As a result, Governmental Activities Net Assets, June 30, 2007, were restated to \$53,227,426 from \$49,212,926, an increase of \$4,014,500.

Note 4 - Fund Deficits and Compliance

Fund Deficits

The following funds had deficit fund balances as of June 30, 2008:

	<u>Deficit</u>
Special Revenue Funds:	
Ohio Reads	\$16,479
Title VI-B Idea	70,751
Title I	98,573
Title II-A	18,511

These deficits resulted from the recognition of payables recorded in accordance with Generally Accepted Accounting Principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Compliance

The School District was not in compliance with Ohio Rev. Code Section 5705.41(B) which states that no subdivision or taxing authority is to expend money unless it has been appropriated. The School District was also not in compliance with OMB Cost Principles 2 C.F.R. 225, Section 8 (a) which provides that compensation of personnel services include all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits.

Note 5 - 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 Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) 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 (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

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. Unrecorded cash and prepaid items are reported on the balance sheet (GAAP basis) but not on the budgetary 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	(\$1,126,768)
Revenue Accruals	(119,746)
Expenditure Accruals	244,066
Beginning of Fiscal Year:	
Unrecorded Cash	17,130
Prepaid Items	8,747
End of Fiscal Year:	
Unrecorded Cash	(545)
Prepaid Items	(9,384)
Encumbrances	<u>(837,475)</u>
Budget Basis	<u><u>(\$1,823,975)</u></u>

Note 6 - 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.

Inactive deposits are public deposits that the Board 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;

Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

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 the 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);
7. The State Treasurer's investment pool (STAROhio); and
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 fiscal year end, \$1,914,762 of the School District's bank balance of \$2,014,762 was exposed to custodial credit risk because it 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 the 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 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.

Investments As of June 30, 2008, the School District had an investment in a Repurchase Agreement. The fair value of the Repurchase Agreement was \$8,015,455, and the investment has a maturity of one day. The Repurchase agreement is invested in the following underlying securities:

	Carrying Value	Percentage of Investment
Federal National Mortgage Association Discount Notes	\$1,365,299	16.43%
Federal Farm Credit Bank Notes	1,113,361	13.40%
Federal Home Loan Mortgage Corporation Discount Notes	3,359,895	40.43%
Federal Home Loan Bank Notes	1,367,279	16.45%
US Treasury Notes	101,250	1.22%
US Treasury Bonds	1,002,810	12.07%
Totals	\$8,309,894	100.00%

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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. The Treasurer cannot make investments which he/she does not reasonably believe can be held until the maturity date. 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 must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily. The stated intent of the investment policy is to avoid the need to sell securities prior to maturity.

Credit Rate Risk The Repurchase Agreement's underlying securities all carry a rating of AAA by Standard and Poor's. The School District's investment policy does not further limit its investment choices beyond State statute.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer and 100% of the School District's total investments is invested in the Repurchase Agreement.

Note 7 - Property Taxes

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

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

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

The School District receives property taxes from Lawrence County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

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

The amount available as an advance at June 30, 2008, was \$193,808 in the General Fund and \$3,368 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2007, was \$74,923 in the General Fund and \$1,482 in the Classroom Facilities Maintenance 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 has been deferred.

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

	2007 Second- Half Collections		2008 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$70,771,400	71%	\$72,533,110	72%
Public Utility Personal	17,368,030	18%	20,852,100	21%
Tangible Personal Property	10,999,442	11%	6,548,840	7%
Total	\$99,138,872	100%	\$99,934,050	100%

Tax rate per \$1,000 of assessed valuation	\$23.00	\$23.00
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Note 8 - Receivables

Receivables at June 30, 2008, consisted of property taxes, accounts (rents, student fees, and tuition), interfund, notes, intergovernmental receivables arising from grants and entitlements, and revenue in lieu of taxes. Notes receivable of \$100,000 are reported in the Permanent Improvements Fund and represent the sale of a School District building to Mended Reeds, a service center for at-risk youth. The note will be retired through annual payments of \$25,000. 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 fiscal year guarantee of federal funds. The amount, representing revenue in lieu of taxes receivable, not scheduled for collection during the subsequent fiscal year is \$2,867,500. All other receivables, except delinquent property taxes, are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Bus Purchase Subsidy	\$12,376
School Lunch and Breakfast Program	54,973
Public Preschool	50,868
Ohio Reads	70,882
Title VI-B	209,235
Title I	165,667
Title V	695
Safe and Drug Free Schools	2,895
Title II-A	58,533
Rural and Low Income	863
Miscellaneous Receivables	1,938
Total	\$628,925

Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 9 - Revenue in Lieu of Taxes

As provided by State law, the School District has entered into an agreement with a property owner under which real and tangible personal property tax abatements were granted to the property owner. The property owner has agreed to make payments to the School District which reflect all or a portion of the real and tangible personal property taxes which the property owner would have paid if the taxes had not been abated. There is no provision within the agreement which would allow the property owner to reduce payments to the School District due to the changing personal property tax system. The agreement provided for a total payout of \$9,635,000 over a 12 year period ending in fiscal year 2015. The School District received \$573,500 in revenue in lieu of taxes for fiscal year 2008. Based upon scheduled payments in this agreement, a receivable and deferred revenue has been recorded in the Permanent Improvements Fund.

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. For fiscal year 2008, the School District contracted with The Netherlands Insurance Company for the following coverage:

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$1,000	\$48,141,725
General Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	2,000,000
Sexual Abuse	0	1,000,000
Products - Completed Operations Aggregate Limit	0	2,000,000
Personal and Advertising Injury Limit - Each Offense	0	1,000,000
Fire Damage Limit - Any One Event	0	500,000
Medical Expense:		
Any One Person	0	15,000
Any One Accident	0	15,000
Errors and Omissions:		
Each Occurrence	2,500	1,000,000
Aggregate Limit	2,500	1,000,000
Employers' Liability:		
Each Occurrence	0	1,000,000
Disease - Each Employee	0	1,000,000
Disease - Policy Limit	0	1,000,000
Employee Benefits Liability:		
Each Occurrence	1,000	1,000,000
Aggregate Limit	1,000	3,000,000
Hazardous Substances	0	25,000
CFC Refrigeration	0	100,000
Spoilage	0	25,000
Vehicles:		
Bodily Injury:		
Per Person	0	1,000,000
Per Accident	0	1,000,000
Property Damage	0	1,000,000
Uninsured Motorist:		
Per Person	100	1,000,000
Per Accident	100	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been so significant reduction in insurance coverage from fiscal year 2007.

B. Workers' Compensation

For fiscal year 2008, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). 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.

Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 11 - Capital Assets

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

	Balance at 6/30/07	Additions	Deductions	Balance at 6/30/08
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$817,657	\$0	\$0	\$817,657
Construction in Progress	747,723	829,287	10,025	1,566,985
Total Capital Assets not being Depreciated	<u>1,565,380</u>	<u>829,287</u>	<u>10,025</u>	<u>2,384,642</u>
Depreciable Capital Assets:				
Land Improvements	10,265,606	152,081	0	10,417,687
Buildings and Improvements	38,797,154	89,594	724,296	38,162,452
Furniture, Fixtures, and Equipment	1,462,138	18,090	0	1,480,228
Vehicles	1,835,231	493,680	29,120	2,299,791
Total Depreciable Capital Assets	<u>52,360,129</u>	<u>753,445</u>	<u>753,416</u>	<u>52,360,158</u>
Less Accumulated Depreciation:				
Land Improvements	2,677,802	504,823	0	3,182,625
Buildings and Improvements	8,590,572	1,243,352	724,296	9,109,628
Furniture, Fixtures, and Equipment	714,219	88,619	0	802,838
Vehicles	1,443,934	119,565	29,120	1,534,379
Total Accumulated Depreciation	<u>13,426,527</u>	<u>1,956,359</u> *	<u>753,416</u>	<u>14,629,470</u>
Total Capital Assets being Depreciated, Net	<u>38,933,602</u>	<u>(1,202,914)</u>	<u>0</u>	<u>37,730,688</u>
Capital Assets, Net	<u><u>\$40,498,982</u></u>	<u><u>(\$373,627)</u></u>	<u><u>\$10,025</u></u>	<u><u>\$40,115,330</u></u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$630,824
Special	275,925
Vocational	22,472
Support Services:	
Pupils	45,105
Instructional Staff	56,341
Administration	112,681
Fiscal	16,854
Operation and Maintenance of Plant	168,257
Pupil Transportation	291,278
Food Service Operations	136,087
Extracurricular Activities	200,535
Total Depreciation Expense	<u><u>\$1,956,359</u></u>

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple employer 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.

Funding Policy – 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 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$247,252, \$262,358, and \$285,664, respectively; 48.49 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Funding Policy – For the fiscal year ended June 30, 2008, plan members were 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 2007, 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 STRS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$981,035, \$959,335, and \$942,390, respectively; 84.21 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$4,920 made by the School District and \$9,762 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 have an option to choose Social Security or the School Retirement System. As of June 30, 2008, one member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

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

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

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

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$156,587, \$133,691, and \$140,704, respectively; 38.12 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006, were \$16,369, \$15,445, and \$19,565, respectively; 43.94 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board the authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$75,464, \$73,795, and \$72,492, respectively; 84.21 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 14 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty days vacation per fiscal year, depending upon length of service, and can accumulate up to a maximum of three years accrual. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month up to a maximum of 240 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave to a maximum of 60 days.

B. Insurance Benefits

Health insurance is provided by United Healthcare. Monthly premiums for this coverage are \$1,698 for family plans and \$688 for single plans. The School District pays 86% of these premiums for certificated employees and 95% for classified employees.

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Anthem Life Insurance in the amount of \$20,000.

Rock Hill Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 15 - Long Term Obligations

Changes in long-term obligations of the School District during fiscal year 2008 were as follows:

	Principal Outstanding 6/30/07	Additions	Deductions	Principal Outstanding 6/30/08	Amount Due in One Year
Governmental Activities:					
Compensated Absences	\$883,376	\$255,637	\$69,455	\$1,069,558	\$64,439

The compensated absences payable will be paid from the fund from which the employees' salaries are paid, which includes the General Fund, and the Food Service, Poverty Based Assistance, and the Title I Funds.

The School District's overall legal debt margin was \$8,915,100, with an unvoted debt margin of \$99,057 at June 30, 2008.

Note 16 - Jointly Governed Organizations

A. South Central Ohio Computer Association

The South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. The School District paid \$103,974 for services provided during fiscal year 2008. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is 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 Council. The School District's membership fee was \$600 for fiscal year 2008. To obtain financial information write to CORAS, McCracken Hall, Ohio University, Athens, Ohio 45701.

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 17 - Insurance Purchasing Pools

A. Ohio School Boards Association Workers' Compensation Group Rating Program

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. Lawrence County Schools Insurance Purchasing Consortium

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, a health insurance purchasing pool. The consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service centers.

Note 18 - Interfund Activity and Balances

A. Transfers

The General Fund made transfers to the Food Service and District Managed Activities Special Revenue Funds in the amounts of \$500,000 and \$60,762, respectively. The transfers were used to move unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

B. Interfund Balances

Interfund Balances at June 30, 2008, arise from the provision of cash flow resources from the General Fund until the receipt of grant monies by the Title VI-B and Title I Special Revenue Funds.

	Interfund Receivables	Interfund Payables
General Fund	\$33,386	\$0
Other Governmental Funds:		
Title VI-B Idea	0	31,402
Title I	0	1,984
Total Other Governmental Funds	0	33,386
Total All Funds	\$33,386	\$33,386

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 19 - Contractual Commitments

As of June 30, 2008, the School District's contractual purchase commitments are as follows:

Projects	Fund	Contract Amount	Amount Expended	Balance at 06/30/08
Softball Field	Permanent Improvements Fund	\$1,224,550	\$1,189,868	\$34,682
Elementary Playground	Permanent Improvements Fund	374,240	196,951	177,289
	Total All Funds	<u>\$1,598,790</u>	<u>\$1,386,819</u>	<u>\$211,971</u>

Note 20 - Contingencies

A. Grants

The School District receives 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 are 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, 2008.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

Note 21 - Set-Aside Calculations

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 fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the school district's general fund or may be left in the account and used by the board to offset any budget deficit the school district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. During fiscal year 2002, the Board of Education passed a resolution to maintain only the refunds from the Bureau of Workers' Compensation in the budget reserve pursuant to State Statute and at June 30, 2008, this is all that continues to be set-aside.

Rock Hill Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of June 30, 2007	\$777	(\$168,879)	\$124,918
Current Year Set-Aside Requirement	277,245	277,245	0
Current Year Offsets	0	(124,141)	0
Qualifying Disbursements	<u>(636,978)</u>	<u>(318,166)</u>	<u>0</u>
Totals	<u>(\$358,956)</u>	<u>(\$333,941)</u>	<u>\$124,918</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$358,956)</u>	<u>\$0</u>	<u>\$124,918</u>
Set-Aside Reserve Balance as of June 30, 2008	<u>\$0</u>	<u>\$0</u>	<u>\$124,918</u>

The School District had qualifying expenditures, offsets, and carry forwards during the fiscal year that reduced the textbook and capital improvements set-aside amount below zero. The extra amount in the textbook set-aside may be used to reduce the set-aside requirements for future years.

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR JUNE 30, 2008**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Food Donation	N/A	10.550	\$	\$ 43,439	\$	\$ 43,439
Nutrition Cluster:						
School Breakfast Program	2008	10.553	200,267		200,267	
National School Lunch Program	2008	10.555	393,387		393,387	
Summer Food Service Program for Children	2008	10.559	994		994	
Total Nutrition Cluster			<u>594,648</u>	<u>0</u>	<u>594,648</u>	<u>0</u>
Total U.S. Department of Agriculture			594,648	43,439	594,648	43,439
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	2007 2008	84.010	27,492 <u>631,871</u>		109,715 <u>623,700</u>	
Total Title I Grants to Local Educational Agencies			659,363	0	733,415	0
Special Education Grants to States	2007 2008	84.027	100,715 <u>340,947</u>		122,284 <u>319,473</u>	
Total Special Education Grants to States			441,662	0	441,757	0
Safe and Drug-Free Schools and Communities State Grants	2007 2008	84.186			2,567 <u>7,599</u>	
Total Safe and Drug-Free Schools and Communities State Grants			11,433	0	10,166	0
State Grants for Innovative Programs	2007 2008	84.298	(695) <u>5,479</u>		<u>3,480</u>	
Total State Grants for Innovative Programs			4,784	0	3,480	0
Education Technology State Grants	2007 2008	84.318			1,896 <u>4,705</u>	
Total Education Technology State Grants			8,098	0	6,601	0
Rural Education	2007 2008	84.358	(864) <u>53,519</u>		<u>49,916</u>	
Total Rural Education			52,655	0	49,916	0
Improving Teacher Quality State Grants	2007 2008	84.367	20,294 <u>127,125</u>		27,637 <u>122,557</u>	
Total Improving Teacher Quality State Grants			147,419	0	150,194	0
Total U.S. Department of Education			<u>1,325,414</u>	<u>0</u>	<u>1,395,529</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 1,920,062</u>	<u>\$ 43,439</u>	<u>\$ 1,990,177</u>	<u>\$ 43,439</u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary 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 value of the commodities received.

NOTE D - TRANSFER BETWEEN GRANT YEARS

During fiscal year 2008, there were transfers between grant years to account for carryover of grant monies. These transfers were reflected as negative receipts under the old grant year and positive receipts under the new grant year on the Schedule. Transfers were made between the 2007 and 2008 grant years as follows:

Program:	Amount:	From Grant Year:	To Grant Year:
CFDA 84.298	\$695	2007	2008
CFDA 84.358	\$864	2007	2008
CFDA 84.027	\$2,703	2007	2008



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

Rock Hill Local School District
Lawrence County
2325A County Road 26
Ironton, Ohio 45638

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 Rock Hill Local School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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.

We consider finding 2008-002 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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 deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the School District's management in a separate letter dated May 11, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated May 11, 2009.

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

We intend this report solely for the information and use of 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

May 11, 2009



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

Rock Hill Local School District
Lawrence County
2325A County Road 26
Ironton, Ohio 45638

To the Board of Education:

Compliance

We have audited the compliance of the Rock Hill Local School District, Lawrence 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, 2008. The Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs 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, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-003. In a separate letter to the School District's management dated May 11, 2009, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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. In a separate letter to the School District's management dated May 11, 2009, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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

We intend this report solely for the information and use of management, the 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

May 11, 2009

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

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

FINDING NUMBER 2008-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing authority is to expend money unless it has been appropriated.

On June 30, 2008, expenditures exceeded appropriations plus encumbrances at the legal level of budgetary control as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Variance</u>	<u>% Variance</u>
General Fund	\$18,297,174	\$17,229,667	(\$1,067,507)	-6%

This could result in overspending if not properly monitored.

We recommend the School District Treasurer monitor expenditures plus encumbrances and appropriations at the legal level of budgetary control. When it is apparent that appropriations will fall short of budgetary estimates, the Board of Education should make corresponding increases in appropriations.

Officials' Response:

The citation was the result of an audit adjustment made to the budgetary statements due to the district receipting in the net of the state foundations adjustments and not receipts in the gross and expensing out the deductions.

FINDING NUMBER 2008-002

Significant Deficiency

Sound financial reporting is the responsibility of the School District Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the financial statements had the following error that required audit adjustment:

- General Fund Tuition and Intergovernmental Revenue were increased by \$640,311 and \$427,196, respectively, and Regular Instruction expenditures were increased by \$1,067,507 to account for state foundation monies that were posted in net instead of gross.

The School District Treasurer posted some foundation revenues net of deductions in the revenue ledger which resulted in the understatement of revenue and expenditures noted above.

To ensure the School District's financial statements and notes to the financial statements are complete and accurate, the School District should adopt policies and procedures, including a final review of the statements and notes by the School District Treasurer and Board of Education to identify and correct errors or omissions.

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

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

FINDING NUMBER 2008-002 (Continued)

Officials' Response:

This was due to the district receipting in the net of the state foundations adjustments and not receipts in the gross and expensing out the deductions.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2008-003
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010
Federal Award Year	2007/2008
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation/Questioned Costs – Allowable Costs/Cost Principles

OMB Cost Principles 2 C.F.R. Part 225, Appendix B, Section 8(a), (formerly known as "Circular A-87") provides that compensation for personnel services include all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225.

2 C.F.R. Part 225, Appendix B, Section 8(h)(3) states where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

2 C.F.R. Part 225, Appendix B, Section 8(h)(4)(a)-(e) states where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on:

- More than one federal award,
- A federal award and a non Federal Award,
- An indirect cost activity and a direct activity,
- Two or more indirect activities which are allocated using different allocation bases, or
- An unallowable activity and a direct or indirect cost activity.

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2008-003 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010
Federal Award Year	2007/2008
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation/Questioned Costs – Allowable Costs/Cost Principles (Continued)

2 CFR Part 225, Appendix B, Section 8(h)(5)(a)-(d) states that personnel activity reports or equivalent documentation must meet the following standards:

- They must reflect an after-the-fact distribution of the actual activity of each employee,
- They must account for the total activity for which each employee is compensated,
- They must be prepared at least monthly and must coincide with one or more pay periods, and
- They must be signed by the employee.

2 CFR Part 225, Appendix B, Section 8(h)(5)(e)(i)-(iii) further provides that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

- The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
- At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charge to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent and;
- The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Total compensation for the Grant Coordinator was based upon an 8-hour work day (e.g. 7 hours for actual work plus 1 hour for lunch). The School District paid the Grant Coordinator's daily lunch hour from the General Fund; however, the remaining 7 hours per day, plus fringe benefits, were charged to the Title I program. The total Title I salary and benefit allocations for the Grant Coordinator represented 85% of the Grant Coordinator's total compensation.

Supporting documentation (e.g. detailed timesheets) required by OMB Cost Principles 2 C.F.R. Part 225 was provided by the Grant Coordinator for the 7 hours actually worked each day for the Title I grant. According to the history log of the 2008 Comprehensive Continuous Improvement Plan (CCIP), the original CCIP and revisions to the CCIP were completed by the Grant Coordinator. The history logs of the 2008 Career-Technical and Adult Education, School Literacy Consultant and the Early Childhood Education Funding Applications indicated that they were each completed by the Grant Coordinator. The timesheets did not reflect any time the Grant Coordinator worked on any of the other 6 Federal grants in the CCIP or for the 3 State grants in the funding applications indicated above.

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2008-003 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010
Federal Award Year	2007/2008
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation/Questioned Costs – Allowable Costs/Cost Principles (Continued)

Section 9201 or 9203 of the Elementary and Secondary Education Act (ESEA) permits school districts to consolidate Federal administrative funds for various Federal programs, including Title I Part A (20 U.S.C. 6314) to upgrade the entire educational program of the school. Time-and-effort requirements in schoolwide program schools vary under different circumstances:

- (1) If a school operating a schoolwide program consolidates Federal, State, and local funds in a consolidated schoolwide pool, an employee who is paid with funds from that pool is not required to file a semi-annual certification because there is no distinction between staff paid with Federal funds and staff paid with State or local funds. In effect, payment from the single consolidated schoolwide pool certifies that the employee works only on activities of the schoolwide program.

- (2) If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows:
 - (a) An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).
 - (b) An employee who works on multiple activities or cost objectives (i.e., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities funded from other revenue sources) must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4), (5), and (6). The employee must document the portion of time and effort dedicated to:
 - (i) The Federal program; and
 - (ii) Each program or other cost objective supported either by consolidated Federal funds or other revenue sources.

Although the School District is operating a schoolwide program for the Rock Hill Elementary School, the School District has not consolidated its Federal funds with its State and local funds in a schoolwide pool. The School District charged 85% of the Grant Coordinator's salary and fringe benefits to the Title I program despite the Grant Coordinator's work on 6 other Federal grants and 3 State grants. As a result, \$85,637.71 (i.e., 85% of the Grant Coordinator's total salary and fringe benefits) is questioned.

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2008-003 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010
Federal Award Year	2007/2008
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation/Questioned Costs – Allowable Costs/Cost Principles (Continued)

The School District should develop internal control procedures to require the School District employees to document the time and effort of administrative costs charged to Federal programs in accordance with the ESEA and 2 C.F.R. Part 225 requirements described above. These procedures should describe time and effort requirements for school district employees who:

- work on more than one federal award
- work on both a federal award and a non federal award
- are a part of a schoolwide program and/or cost allocation pool

Such policies and procedures should include adequate monitoring of grant related activity by appropriate personnel and supervisor knowledgeable of applicable grants management compliance requirements.

Officials' Response:

The grant coordinator's official title in the district is Title I coordinator. In the CCIP for both grant years FY 2007 and 2008, it is noted in the CCIP log that the 85% portion of the salary that is charged to Title I is the actual cost of doing business in the district. The grant for both years was approved by grants management with this notation in the CCIP log.

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315(b)
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Ohio Rev. Code Section 5705.10(F) – proceeds from sale of buildings was paid into the General Fund instead of Permanent Improvement Fund	Yes	
2007-002	Questioned Cost – charges duplicated for IDEA-B grant	Yes	

**ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 § .315(c)
JUNE 30, 2008**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2008-001	School District Treasurer intends to have the Board increase appropriations and the amended certificate to account for the posting of all state foundation receipts in the gross with deductions posted as expenditures.	June 30, 2009	Thomas C. Robinson, School District Treasurer
2008-002	School District Treasurer intends to post all state foundation receipts in the gross with deductions posted as expenditures.	June 30, 2009	Thomas C. Robinson, School District Treasurer
2008-003	School District Treasurer intends to contact the Ohio Department of Education to discuss this matter.	June 30, 2009	Thomas C. Robinson, School District Treasurer



Mary Taylor, CPA
Auditor of State

ROCK HILL LOCAL SCHOOL DISTRICT
LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 26, 2009