



Dave Yost • Auditor of State



**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Hardin-Houston Local School District  
Shelby County  
5300 Houston Road  
Houston, Ohio 45333

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 Hardin-Houston Local School District, Shelby County, (the District), as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin-Houston Local School District, Shelby County, as of June 30, 2010 and 2009, and the respective changes in modified cash financial position, thereof and the budgetary comparison for the General Fund for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The schedule of federal awards receipts and disbursements for the year ended June 30, 2010, provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

March 7, 2011

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

This discussion and analysis of the Hardin Houston Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Key highlights for fiscal year 2010 are as follows:

- Net assets of governmental activities increased \$5,439,695 from prior year.
- Of the School District's \$12,946,800 in cash disbursements, \$11,207,299 or 86.6 percent of the disbursements were offset by program receipts.
- Among major funds, the General Fund had \$7,155,301 in receipts and \$7,427,294 in disbursements. The General Fund's balance decreased \$267,855 from 2009.
- During fiscal year 2010, the School District continued the construction of a new K-12 facility. The School District received \$9,050,020 during fiscal year 2010 from the State of Ohio through the School Facilities Commission program for the construction project.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting.

This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Reporting the School District as a Whole**

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

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2010, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as 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, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

**Fund Financial Statements**

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

**Governmental Funds** - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides.

Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund, Bond Retirement Debt Service Fund and Building Construction Project Capital Projects Fund.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2010 compared to fiscal year 2009 on a modified cash basis:

**(Table 1)  
Net Assets**

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$20,478,336	\$15,038,641
<b>Net Assets:</b>		
<b>Restricted for:</b>		
Capital Projects	18,322,188	12,816,017
Debt Service	426,715	308,834
School Bus Purchases	64,358	64,358
Other Purposes	266,124	182,626
Unrestricted	1,398,951	1,666,806
<b>Total Net Assets</b>	<b>\$20,478,336</b>	<b>\$15,038,641</b>

As mentioned previously, net assets of governmental activities increased \$5,439,695 during fiscal year 2010. Unrestricted net assets decreased \$267,855 as a result of general operating receipts exceeding disbursements. Net assets restricted for capital projects increased due to monies received from the State for the building construction project. Net assets restricted for school bus purchases remained the same as no additional monies were received in fiscal year 2010 and no money was spent in fiscal year 2010.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

Table 2 reflects the changes in net assets for fiscal year 2010 and fiscal year 2009.

**(Table 2)  
Changes in Net Assets**

	<b>Governmental Activities 2010</b>	<b>Governmental Activities 2009</b>
<b>Receipts:</b>		
<b>Program Receipts:</b>		
Charges for Services	\$ 1,039,053	\$ 1,011,023
Operating Grants and Contributions	880,725	832,991
Capital Grants and Contributions	9,287,521	3,662,502
Total Program Receipts	<u>11,207,299</u>	<u>5,506,516</u>
<b>General Receipts:</b>		
Property Taxes	2,191,512	1,966,329
Income Taxes	611,525	688,968
Grants and Entitlements Not Restricted to Specific Programs	4,337,472	4,164,655
Notes and Bonds Issued (including premium)		18,689,441
All Other Categories	38,687	92,172
Total General Receipts	<u>7,179,196</u>	<u>25,601,565</u>
Total Receipts	<u>18,386,495</u>	<u>31,108,081</u>
<b>Disbursements:</b>		
Instruction	4,907,043	5,387,751
<b>Support Services:</b>		
Pupils and Instructional Staff	1,062,371	708,732
Board of Education, Administration, Fiscal and Business	854,640	807,778
Operation and Maintenance of Plant	589,605	669,652
Pupil Transportation	628,536	514,423
Central	13,316	12,770
Operation of Non-Instructional Services	246,644	246,322
Extracurricular Activities	188,783	197,694
Capital Outlay	3,966,279	717,167
Debt Service	489,583	9,811,401
Total Disbursements	<u>12,946,800</u>	<u>19,073,690</u>
Increase in Net Assets	5,439,695	12,034,391
Net Assets, Beginning of Year	<u>15,038,641</u>	<u>3,004,250</u>
Net Assets, End of Year	<u>\$20,478,336</u>	<u>\$15,038,641</u>

During fiscal year 2009, the School District issued \$9,204,996 in Classroom Facilities Improvement Bonds. These bonds paid off \$9,209,676 of general obligation notes for issued for the same purpose. With the bond proceeds, the School District is building a new K-12 facility. The bonds were issued to pay for the local portion of the project.

In fiscal year 2010, capital grants and contributions increased due to monies provided by the State of Ohio through the School Facilities Commission program.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

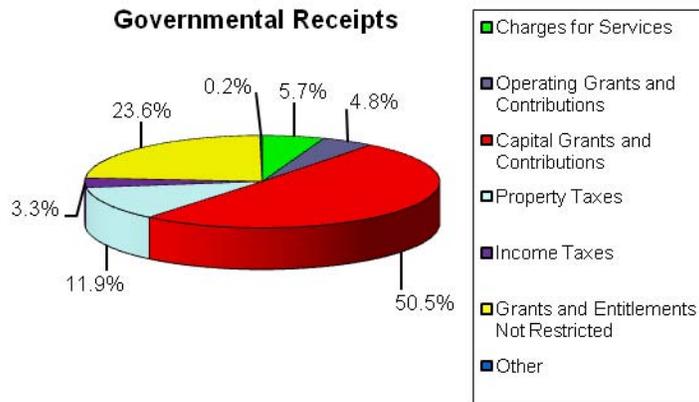
Voters of the School District approved additional property tax levies for 7.05 mills in August 2008 to pay for the retirement of the bonds. As a result of the new levies, property taxes increased. With the downturn in the economy, income taxes decreased as jobs were lost or income decreased.

ARRA and fiscal stabilization monies contributed to the increase in operating grants and contributions.

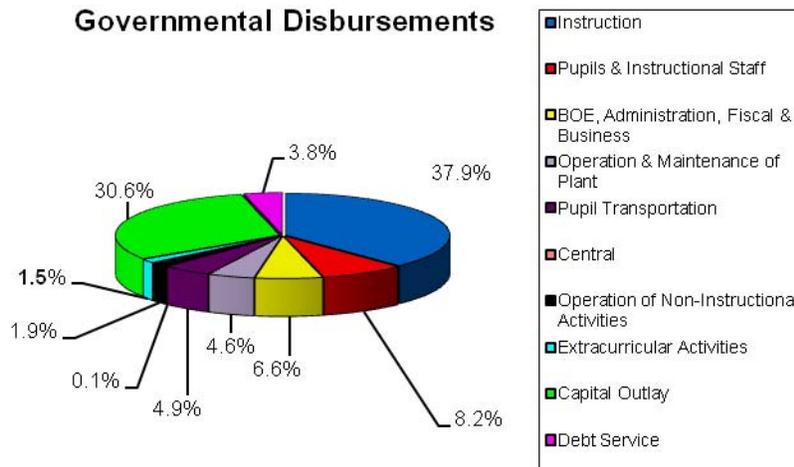
Disbursements decreased during fiscal year 2010, primarily due to the retirement of general obligation notes from the bond proceeds that occurred in fiscal year 2009. Capital outlay increased with the disbursements made to pay for the construction of the new K-12 building.

**Governmental Activities**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property and income taxes typically make up approximately 30% of the School District's receipts. For fiscal year 2010, capital grants and contributions make up over half of the School District's receipts. Grants and entitlements not restricted consists largely of state foundation monies.



Instruction typically comprises approximately 60% of the School District's disbursements. Support services typically make up 34% of disbursements. For fiscal year 2010, capital outlay of 30.6% has dropped the disbursements for general instruction to 37.9% and support services to 24.4%.



**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

If you look at the statement of activities on page 12, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the statement entitled program cash receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net receipt (disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)  
Governmental Activities**

	<b>Total Cost Of Services 2010</b>	<b>Net Cost of Services 2010</b>	<b>Total Cost Of Services 2009</b>	<b>Net Cost of Services 2009</b>
Instruction	\$ 4,907,043	(\$3,877,435)	\$ 5,387,751	(\$ 4,101,048)
<b>Support Services:</b>				
Pupils and Instructional Staff	1,062,371	(734,217)	708,732	(518,903)
Board of Education, Administration, Fiscal and Business	854,640	(854,640)	807,778	(802,169)
Operation and Maintenance of Plant	589,605	(412,040)	669,652	(640,770)
Pupil Transportation	628,536	(568,014)	514,423	(491,074)
Central	13,316	(11,888)	12,770	(11,962)
Operation of Non-Instructional Services	246,644	29,933	246,322	23,378
Extracurricular Activities	188,783	(142,859)	197,694	(145,746)
Capital Outlay	3,966,279	5,321,242	717,167	2,932,521
Debt Service	489,583	(489,583)	9,811,401	(9,811,401)
Total Disbursements	<u>\$12,946,800</u>	<u>(\$1,739,501)</u>	<u>\$19,073,690</u>	<u>(\$13,567,174)</u>

The dependence upon state foundation and property and income tax receipts is apparent. 79 percent of instructional activities are supported through these general receipts. Operation of non-instructional services has a positive net cost of service. This represents the food service program. The positive net cost of service for capital outlay is the result OSFC monies from the State for the building construction project.

**The School District's Funds**

Total governmental funds had receipts of \$18,382,357 and disbursements of \$12,946,800. The fund balance of the General Fund decreased \$267,855. Income tax revenue in the general fund decreased due to the slow economy and intergovernmental revenue through State Foundation decreased during fiscal year 2010.

The fund balance of the Bond Retirement Fund increased \$117,881. The new bond levy caused an increase in receipts.

The fund balance of the Building Construction Project Fund increased \$5,382,758 due to receipts from the OSFC which will be used in the construction of the new building.

**General Fund Budgeting Highlights**

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

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

For the General Fund, the final budget basis revenue estimate was \$7,095,600, which was the same as the original. Although property tax revenues were higher than anticipated, income tax revenues were lower than anticipated.

During fiscal year 2010, the School District closely monitored expenditures so that expenditures were \$313,525 less than appropriations.

**Capital Assets and Debt Administration**

Capital Assets

The School District does not currently report its capital assets and infrastructure.

**Debt**

At June 30, 2010, the School District had \$9,353,410 in debt outstanding. The school improvement bond was originally issued for \$598,950 and will be paid off in fiscal year 2012. The energy conservation loan was originally \$199,096 and will be paid off in fiscal year 2013. The capital facilities bonds were issued for \$9,204,996 in fiscal year 2009 and will be paid off in fiscal year 2037.

**Table 4  
Outstanding Debt at June 30,**

	<u>Amount Outstanding 6/30/2009</u>	<u>Amount Outstanding 6/30/2010</u>	<u>Amount Due in One Year</u>
<b>Governmental Activities:</b>			
School Improvement Bonds 1989 7.625%	\$ 90,000	\$ 60,000	\$ 30,000
Energy Conservation Loan 1999 5.95%	72,021	55,570	17,447
<b>Classroom Facilities:</b>			
Improvement Bonds - 3.0-5.5% Serial Bonds	5,275,000	5,275,000	225,000
Term Bonds	3,750,000	3,750,000	
Capital Appreciation Bonds	179,996	212,840	
Total Governmental Activities			
Long-Term Liabilities	<u>\$9,367,017</u>	<u>\$9,353,410</u>	<u>\$272,048</u>

The School District may not issue bonds which exceed nine percent of the total value of all property in the School District as listed and assessed for taxation. The Board of Education, though exceeding the nine percent debt limitation, is exempt from being required to qualify as a special needs district pursuant to Section 133.03(l), the proposed bond issuance is only being used to raise the School District's local share of project costs under the Classroom Facilities Program.

The School District's energy conservation debt margin was \$740,525 and the un-voted debt margin was \$88,455 at June 30, 2010.

For more information on the School District's debt, see Note 10 of the Basic Financial Statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**Current Issues**

The School District historically fluctuates back and forth of a break-even point over the past several years. The administration and the board of education continue to closely monitor State funding as there continues to be a reliance on the local taxpayer to maintain current levels of funding. This requires management to plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years.

On August 5, 2008, the voters of the School District approved a 7.05 mill levy. A portion of the levy, 6.55 mills, is a bond levy that will be used to pay for the local portion, \$9,209,676, needed to build a new K-12 facility. The remaining portion, \$13,814,515 has been approved for the School District by the Ohio School Facilities Commission. The construction began in the late summer of 2009. The remaining portion of the levy .5 mills will generate funds needed to help maintain the new facility.

The School District recently received an AA- bond rating from Standard and Poor's.

In conclusion, the Hardin Houston Local School District continues to be committed to financial as well as educational excellence. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

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

This financial report is designed to provide our citizens, taxpayers, 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 questions about this report or need additional financial information contact Amy Ayers, 5300 Houston Road, Houston, OH 45333 or e-mail at [ayers@houston.k12.oh.us](mailto:ayers@houston.k12.oh.us).

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2010**

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$20,478,336</u></u>
<b>Net Assets:</b>	
<b>Restricted for:</b>	
Capital Projects	18,322,188
Debt Service	426,715
School Bus Purchases	64,358
Other Purposes	266,124
Unrestricted	<u>1,398,951</u>
Total Net Assets	<u><u>\$20,478,336</u></u>

*See accompanying notes to the basic financial statements.*

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
<b>Governmental Activities:</b>					
<b>Instruction:</b>					
Regular	\$4,103,397	\$814,556	\$75,962		(\$3,212,879)
Special	625,654	1,876	112,716		(511,062)
Vocational	108,245		20,727		(87,518)
Student Intervention Services	10,674				(10,674)
Other	59,073		3,771		(55,302)
<b>Support Services:</b>					
Pupil	703,106	12,051	307,713		(383,342)
Instructional Staff	359,265		8,390		(350,875)
Board of Education	11,748				(11,748)
Administration	566,361				(566,361)
Fiscal	275,800				(275,800)
Business	731				(731)
Operation and Maintenance of Plant	589,605	29,465	148,100		(412,040)
Pupil Transportation	628,536	5,694	54,828		(568,014)
Central	13,316		1,428		(11,888)
Operation of Non-Instructional Services	246,644	130,863	145,714		29,933
Extracurricular Activities	188,783	44,548	1,376		(142,859)
Capital Outlay	3,966,279			\$9,287,521	5,321,242
Principal Retirement	46,451				(46,451)
Interest and Fiscal Charges	443,132				(443,132)
<b>Total Governmental Activities</b>	<b>\$12,946,800</b>	<b>\$1,039,053</b>	<b>\$880,725</b>	<b>\$9,287,521</b>	<b>(1,739,501)</b>
<b>General Receipts:</b>					
<b>Property Taxes Levied for:</b>					
General Purposes					1,630,917
Capital Maintenance					38,131
Debt Service					522,464
Income Taxes Levied for General Purposes					407,683
Income Taxes Levied for Capital Outlay					203,842
Grants and Entitlements not Restricted to Specific Programs					4,337,472
Gifts and Donations not Restricted to Specific Programs					3,988
Interest					21,254
Miscellaneous					13,445
<b>Total General Receipts</b>					<b>7,179,196</b>
Change in Net Assets					5,439,695
Net Assets Beginning of Year					15,038,641
Net Assets End of Year					<b>\$20,478,336</b>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	<u>General</u>	<u>Bond Retirement</u>	<u>Building Construction Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$1,398,951	\$426,715	\$17,831,757	\$756,555	\$20,413,978
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	64,358				64,358
Total Assets	<u>1,463,309</u>	<u>426,715</u>	<u>17,831,757</u>	<u>756,555</u>	<u>20,478,336</u>
<b>Fund Balances:</b>					
Reserved for Encumbrances	39,105		14,217,197	350,604	14,606,906
Reserved for Bus Purchases	64,358				64,358
Designated for Budget Stabilization	38,784				38,784
<b>Unreserved, Undesignated, Reported in:</b>					
General Fund	1,321,062				1,321,062
Special Revenue Funds				264,591	264,591
Debt Service Fund		426,715			426,715
Capital Projects Fund			3,614,560	141,360	3,755,920
Total Fund Balances	<u>\$1,463,309</u>	<u>\$426,715</u>	<u>\$17,831,757</u>	<u>\$756,555</u>	<u>\$20,478,336</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Bond Retirement</u>	<u>Building Construction Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts:</b>					
Property Taxes	\$1,630,917	\$522,464		\$38,131	\$2,191,512
Income Taxes	407,683			203,842	611,525
Intergovernmental	4,256,755	77,598	9,050,020	878,942	14,263,315
Interest	20,751		237,501	503	258,755
Tuition and Fees	820,250				820,250
Extracurricular Activities				56,038	56,038
Contributions and Donations	950			3,641	4,591
Charges for Services	3,038			150,778	153,816
Rentals	9,550				9,550
Miscellaneous	5,407		2,475	5,123	13,005
Total Receipts	<u>7,155,301</u>	<u>600,062</u>	<u>9,289,996</u>	<u>1,336,998</u>	<u>18,382,357</u>
<b>Disbursements:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	4,008,897			94,500	4,103,397
Special	508,743			116,911	625,654
Vocational	108,245				108,245
Student Intervention Services	10,674				10,674
Other	55,302			3,771	59,073
<b>Support Services:</b>					
Pupil	385,914			317,192	703,106
Instructional Staff	349,687			9,578	359,265
Board of Education	11,748				11,748
Administration	566,361				566,361
Fiscal	258,546	12,968		4,286	275,800
Business	731				731
Operation and Maintenance of Plant	408,499			181,106	589,605
Pupil Transportation	567,738			60,798	628,536
Central	11,888			1,428	13,316
Operation of Non-Instructional Services				246,644	246,644
Extracurricular Activities	146,125			42,658	188,783
Capital Outlay	7,826		3,907,238	51,215	3,966,279
<b>Debt Service:</b>					
Principal Retirement	16,451	30,000			46,451
Interest and Fiscal Charges	3,919	439,213			443,132
Total Disbursements	<u>7,427,294</u>	<u>482,181</u>	<u>3,907,238</u>	<u>1,130,087</u>	<u>12,946,800</u>
Excess of Receipts Over (Under) Disbursements	(271,993)	117,881	5,382,758	206,911	5,435,557
<b>Other Financing Sources:</b>					
Refund of Prior Year Expenditures	4,138				4,138
Net Change in Fund Balances	(267,855)	117,881	5,382,758	206,911	5,439,695
Fund Balances Beginning of Year	<u>1,731,164</u>	<u>308,834</u>	<u>12,448,999</u>	<u>549,644</u>	<u>15,038,641</u>
Fund Balances End of Year	<u>\$1,463,309</u>	<u>\$426,715</u>	<u>\$17,831,757</u>	<u>\$756,555</u>	<u>\$20,478,336</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF REVENUES, DISBURSEMENTS AND  
CHANGES IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property Taxes	\$1,551,000	\$1,551,000	\$1,630,917	\$79,917
Income Taxes	457,000	457,000	407,683	(49,317)
Tuition and Fees	756,000	756,000	820,250	64,250
Interest	70,000	70,000	20,751	(49,249)
Intergovernmental	4,248,600	4,248,600	4,256,755	8,155
Charges for Services	1,000	1,000	3,038	2,038
Gifts and Donations	1,000	1,000	950	(50)
Rent	9,000	9,000	9,550	550
Miscellaneous	2,000	2,000	5,407	3,407
Total Revenues	<u>7,095,600</u>	<u>7,095,600</u>	<u>7,155,301</u>	<u>59,701</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	4,043,565	4,103,565	4,011,234	92,331
Special	511,707	511,707	508,743	2,964
Vocational	109,995	109,995	108,245	1,750
Student Intervention Services	8,644	8,644	10,674	(2,030)
Other	48,500	58,500	55,302	3,198
<b>Support Services:</b>				
Pupils	482,270	482,270	385,914	96,356
Instructional Staff	352,866	352,866	350,162	2,704
Board of Education	14,134	14,134	11,748	2,386
Administration	556,568	556,568	566,658	(10,090)
Fiscal	248,495	248,495	273,018	(24,523)
Business	700	700	731	(31)
Operation and Maintenance of Plant	425,824	487,824	420,948	66,876
Pupil Transportation	551,810	641,810	567,990	73,820
Central	15,055	15,055	11,888	3,167
Extracurricular Activities	153,617	153,617	146,125	7,492
Capital Outlay	13,530	13,530	16,649	(3,119)
<b>Debt Service:</b>				
Principal Retirement	16,720	16,720	16,451	269
Interest and Fiscal Charges	3,924	3,924	3,919	5
Total Expenditures	<u>7,557,924</u>	<u>7,779,924</u>	<u>7,466,399</u>	<u>313,525</u>
Excess of Revenues Over (Under) Expenditures	(462,324)	(684,324)	(311,098)	373,226
<b>Other Financing Source:</b>				
Refund of Prior Year Expenditure	2,000	2,000	4,138	2,138
Net Change in Fund Balances	(460,324)	(682,324)	(306,960)	375,364
Fund Balance at Beginning of Year	1,673,957	1,673,957	1,673,957	
Prior Year Encumbrances Appropriated	57,207	57,207	57,207	
Fund Balance at End of Year	<u>\$1,270,840</u>	<u>\$1,048,840</u>	<u>\$1,424,204</u>	<u>\$375,364</u>

See Accompanying Notes to the Basic Financial Statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2010**

	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,967	\$27,836
<b>Net Assets:</b>		
Restricted for Students		27,836
Held in Trust for Scholarships	1,967	
Total Net Assets	\$1,967	\$27,836

*See accompanying notes to the basic financial statements.*

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Miscellaneous	\$750
<b>Deductions:</b>	
Scholarships	<u>1,800</u>
Change in Net Assets	(1,050)
Net Assets - Beginning of Year	<u>3,017</u>
Net Assets - End of Year	<u><u>\$1,967</u></u>

*See accompanying notes to the basic financial statements.*

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**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**1 REPORTING ENTITY**

Hardin-Houston Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government and provides educational services as authorized by State and federal agencies. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The School District is located in Shelby County. The School District is staffed by 42 non-certificated employees, 58 certificated full-time teaching personnel and 3 administrative employees who provide services to 896 students and other community members. The School District currently operates two instructional/support buildings.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

**A. Primary Government**

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Hardin Houston Local School District, this includes general operations, food service, and student related activities of the School District.

**B. Component Units**

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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District does not have any component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 12 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Western Ohio Computer Organization
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Shelby County Schools Consortium
- Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-side financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless these pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide financial 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.

**1. Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. However, the School District does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

**2. 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. The funds of the School District are divided as either governmental or fiduciary.

**1. Governmental Funds**

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

**General Fund** - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Bond Retirement Debt Service Fund** – The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

**Building Construction Project Fund** – The Building Construction Project Capital Projects Fund accounts for the State share and the Local share of the Ohio School Facilities Commission project and the related expenses. The School District is building a new K-12 facility.

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

**2. Fiduciary Funds**

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

**C. Basis of Accounting**

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

**D. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds, except the General Fund which is at the object level within the fund. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts 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 on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward 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.

**E. Cash and Investments**

To improve cash management, cash received by the School District is pooled and invested. 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".

Investments of the School District's 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 on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

During fiscal year 2010, the School District invested in certificates of deposit, Fifth Third Institutional Government Money Market Fund, and Federal Home Loan Mortgage Corporation bonds.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2010 was \$20,751, which included \$6,860 assigned from other School District funds.

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of buses.

**G. Inventory and Prepaid Items**

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**I. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

**J. Employer Contributions to Cost-Sharing Pension Plans**

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**K. Long-Term Obligations**

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither any other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. The School District did not have net assets restricted by enabling legislation at June 30, 2010.

**M. Fund Balance Reserves and Designations**

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the School District's intentions and is subject to change. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and bus purchases. A fund designation has been established for budget stabilization.

**N. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**O. Estimates**

The modified cash basis of accounting used by the School District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

**3. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year-end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year-end (budgetary basis) amounted to:

General Fund	\$39,105
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**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**4. 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;
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 provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**4. DEPOSITS AND INVESTMENTS (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

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

At fiscal year-end, the carrying amount of the School District's deposits was \$18,617,990 and the bank balance was \$18,763,819. \$8,532,587 of the School District's deposits was insured by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$10,231,232 of the School District's bank balance of \$18,763,819 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

**B. Investments**

The School District had the following investments at fiscal year-end:

<u>Type of Investment</u>	<u>Maturity/Call Date</u>	<u>Fair Value</u>
Fifth Third Institutional Government Money Market Fund	45 days	\$1,379,069
Federal Home Loan Mortgage Corporation Bond	1/28/2014	511,080
		<u>\$1,890,149</u>

**Interest Rate Risk** - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices.

**Credit Risk** – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices. The investment in Fifth Third Institutional Government Money Market Fund is rated AAAM by Standard & Poor's. The investments in the Federal Home Loan Mortgage Corporation is rated AAA by Standard and Poor's.

**Concentration of Credit Risk** - The School District places no limits on the amount the School District may invest in any one issuer. More than 5 percent of the School District's investments are in the following:

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

<u>Type of Investment</u>	<u>Percentage</u>
Fifth Third Institutional Government Money Market Fund	72.96%
Federal Home Loan Mortgage Corporation Bond	27.04%

**Custodial Credit Risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The federal agency securities are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the School District’s name. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the Treasurer or qualified trustee.

**5. PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District.

Real property tax receipts received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied against local and inter-exchange telephone companies in the prior calendar year on assessed values as of December 31, of that calendar year, at tax rates determined in the preceding year. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The percentages for telecommunications are 5 percent for 2010 and zero percent for 2011.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility property taxes are payable on the same date as real property taxes described previously.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**5. PROPERTY TAXES (Continued)**

The School District receives property taxes from Shelby 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, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	<b>2009 Second- Half Collections</b>		<b>2010 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$80,183,370	95.61%	\$85,015,180	96.11%
Public Utility Personal	3,524,830	4.20%	3,366,000	3.81%
Tangible Personal Property	154,800	0.19%	73,820	0.08%
<b>Total</b>	<b>\$83,863,000</b>	<b>100.00%</b>	<b>\$88,455,000</b>	<b>100.00%</b>
Tax Rate per \$1,000 of Assessed Valuation	\$34.55		\$34.55	

**6. INCOME TAXES**

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. Income tax revenue is credited to the General Fund (one-half of one percent) and the Permanent Improvement Capital Projects Fund (one-fourth of one percent). The General Fund tax was effective on January 1, 1991, and the Permanent Improvement Capital Projects Fund tax was effective on January 1, 1997. Both are continuing taxes. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

**7. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the School District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (See Note 12). The School District pays this annual premium to Southwestern Educational Purchasing Council who in turns pays Arthur Gallagher Risk Management Services Inc.

Insurance coverage provided includes the following:

Building and Contents-replacement cost (\$1,000 deductible)	\$19,842,844
Inland Marine Coverage (\$1,000 deductible)	Actual
Money and Securities	500,000
Automobile Liability (\$1000 deductible)	1,000,000
General Liability Umbrella Policy	5,000,000
Crime/Employee Dishonesty (\$1000 deductible)	500,000

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**7. RISK MANAGEMENT (Continued)**

<b>Education General Liability:</b>	
Each Occurrence	1,000,000
Medical Expense-Any One Person/Each Accident	5,000
General Aggregate Limit	3,000,000
Employee Benefits Liability (\$1,000 deductible):	
Each Offense	1,000,000
Aggregate Limit	3,000,000
<b>Employer's Liability and Stop Gap:</b>	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
<b>Errors and Omissions Liability:</b>	
Per Occurrence	1,000,000
Aggregate Limit	1,000,000

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

**B. Workers' Compensation**

For fiscal year 2010, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control and actuarial services to the GRP.

**8. 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 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rating among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year 2010, the allocation to pension and death benefits is 12.78 percent of annual covered salary. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$138,278, \$84,258, and \$74,012 respectively; 13.95 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. State Teachers Retirement System of Ohio**

**Plan Description** - The 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

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

**Funding Policy** - For the fiscal year ended June 30, 2010, 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. 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.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$413,765, \$413,524, and \$400,311, respectively; 82.94 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$12,159 made by the School District and \$8,685 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 State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2010, two members of the Board of Education have elected Social Security. The School District's liability is 6.2 percent of wages paid.

**9. 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-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

**Medicare Part B Plan** – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40 for most participants, but could be as high as \$353.60 per month, depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$8,223, \$6,952, and \$5,333, respectively; 52.27 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**Health Care Plan** – ORC 3309.375 and 2209.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**9. POSTEMPLOYMENT BENEFITS (Continued)**

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation is .46 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for health care surcharge.

For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$18,643, \$52,226, and \$47,154, respectively; 13.95 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

**B. State Teachers Retirement System of Ohio**

**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](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$31,828, \$31,810, and \$30,793 respectively; 82.94 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**10. DEBT**

The changes in the School District's long-term obligations during fiscal year 2010 were as follows:

	<b>Amount Outstanding 6/30/2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Amount Outstanding 6/30/2010</b>	<b>Amount Due in One Year</b>
<b>Governmental Activities:</b>					
School Improvement Bonds 1989 7.625%	\$ 90,000		(\$30,000)	\$ 60,000	\$ 30,000
Energy Conservation Loan 1999 5.95%	72,021		(16,451)	55,570	17,447
<b>Classroom Facilities:</b>					
Improvement Bonds - 3.0-5.5% Serial Bonds	5,275,000			5,275,000	225,000
Term Bonds	3,750,000			3,750,000	
Capital Appreciation Bonds	179,996	\$32,844		212,840	
Total Governmental Activities					
Long-Term Liabilities	<u>\$9,367,017</u>	<u>\$32,844</u>	<u>(\$46,451)</u>	<u>\$9,353,410</u>	<u>\$272,447</u>

The School Improvement Bonds were issued October 1, 1988, for \$598,950. The un-voted general obligation bonds were issued for the purpose of school improvements. The bonds will mature December 1, 2011, and will be retired from the Bond Retirement Debt Service Fund.

The Energy Conservation Loan was issued July 7, 1998, for \$199,096. The loan was issued for the purpose of making energy conservation improvements. The loan will mature March 1, 2013, and will be retired from the General Fund.

On December 23, 2008, the School District issued \$9,204,996 in Classroom Facilities Improvement Bonds. The bonds had a premium of \$274,769 and issuance costs of \$192,883. Of the bonds, \$5,275,000 is serial bonds with interest rates from 3% to 5% with a final maturity December 1, 2029. \$3,750,000 is term bonds (\$1,975,000 with a 5.25% interest rate maturing on December 1, 2033 and \$1,775,000 with a 5.5% interest rate maturing on December 1, 2036). \$179,996 is capital appreciation bonds (maturity amount of \$275,000 on December 2016, 2017, and 2018).

The term bonds due December 1, 2033, are subject to mandatory sinking fund redemption as follows:

<b>Year</b>	<b>Amount to be Redeemed</b>
2030	\$455,000
2031	480,000
2032	505,000

The remaining \$535,000 principal amount of the bonds due December 1, 2033, is to be paid at stated maturity.

The term bonds due December 1, 2036, are subject to mandatory sinking fund redemption as follows:

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**10. DEBT (Continued)**

<u>Year</u>	<u>Amount to be Redeemed</u>
2034	\$560,000
2035	590,000

The remaining \$625,000 principal amount of the bonds due December 1, 2036, is to be paid at stated maturity. The bonds will be paid from the Bond Retirement Debt Service Fund.

The School District may not issue bonds which exceed nine percent of the total value of all property in the School District as listed and assessed for taxation. The Board of Education, though exceeding the nine percent debt limitation, is exempt from being required to qualify as a special needs district pursuant to Section 133.03(l), the proposed bond issuance is only being used to raise the School District's local share of project costs under the Classroom Facilities Program.

The School District's energy conservation debt margin was \$740,525 and the un-voted debt margin was \$88,455 at June 30, 2010.

Principal and interest requirements to retire the general obligation bonds and loans outstanding at June 30, 2010, are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>School Improvement Bonds</b>		<b>Energy Conservation Loan</b>		<b>Capital Facilities Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2011	\$30,000	\$3,385	\$17,447	\$2,923	\$ 225,000	\$ 430,119
2012	30,000	1,128	18,508	1,862	230,000	423,294
2013			19,615	736	240,000	415,944
2014					245,000	407,756
2015					255,000	399,006
2016-2020					719,996	2,567,229
2021-2025					1,560,000	1,694,422
2026-2030					1,980,000	1,263,562
2031-2035					2,535,000	687,056
2036-2037					1,215,000	67,788
Total	\$60,000	\$4,513	\$55,570	\$5,521	\$9,204,996	\$8,356,176

**11. SET-ASIDE REQUIREMENTS**

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.

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

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**11. SET-ASIDE REQUIREMENTS (Continued)**

	<b>Textbooks and Instructional Material</b>	<b>Capital Acquisitions</b>
Set-aside Reserve Balance as of June 30, 2009	(\$147,143)	(\$ 903,432)
Current Year Set-aside Requirement	140,748	140,748
Qualifying Disbursements	(89,488)	(2,488)
Current Year Offsets - capital maintenance levy		(61,977)
Current Year Offsets - debt levy proceeds		(600,062)
Current Year Offsets - income tax		(203,842)
Set-aside Balances Carried Forward to Future Fiscal Years	(\$ 95,883)	(\$1,631,053)
Amount of Set-aside Carried Forward to Future Fiscal Years	(\$ 95,883)	(\$1,503,494)

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements and textbooks amounts below zero. These extra amounts of offsets may be used to reduce the set-aside requirements in future fiscal years. For capital acquisitions, the amount carried forward is limited to the amount from debt levy proceeds.

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS**

**A. Jointly Governed Organizations**

**Western Ohio Computer Organization** - The Hardin-Houston Local School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. The Western Ohio Computer Organization is one of the 23 Information Technology Center's (ITC) in the state of Ohio, which were formed in the late 70's, early 80's. These "ITC's" were originally charged to provide computer services to the member school district's fiscal offices, forming what is known today as the OECN, The Ohio Educational Computer Network. WOCO began its operations in 1980 providing computer services to 29 members school districts located in the five county area of Shelby, Auglaize, Hardin, Logan and Champaign. Today WOCO provides technical services to 34 public school districts, 5 public charter schools and 4 non-public districts.

The governing board of WOCO consists of fourteen members who consist of the Superintendent of the Fiscal Agent, two Superintendents from each county (Auglaize, Champaign, Hardin, Logan and Shelby), one representative from the city schools and one representative each from the treasurer and student services users. The School District paid WOCO \$42,509 for services provided during the fiscal year. Financial information can be obtained from Donn Walls, who serves as Director, at 129 E. Court Street, Sidney, Ohio 45365.

**Southwestern Ohio Educational Purchasing Council** -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS  
(Continued)**

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2010, the School District paid \$6,420 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2010, the School District paid \$0 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**B. Insurance Purchasing Pools**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a ten member committee consisting of the Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by a majority vote of all member school districts. The Chief administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Shelby County Schools Consortium** - The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental, and term-life benefits to its participants at a lower rate than if individual districts acted independently.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS  
(Continued)**

Each school district pays monthly premiums to the provider, currently Anthem Blue Cross/Blue Shield for health and dental insurance, and Sun Life Financial for life insurance. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the service center. The degree of control exercised by any participating school district is limited to its representation on the committee. During 2010, the School District paid \$988,498 to the Consortium for benefits. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 North Ludlow St., Dayton, Ohio 45402.

**Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program**  
– The School District participates in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. During fiscal year 2010, the School District paid \$27,530 for insurance coverage. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**13. SIGNIFICANT CONTRACTUAL COMMITMENTS**

As of June 30, 2010, the School District had contractual purchase commitments as follows:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Expended</u>	<u>Remaining Balance</u>
Bovis Land Lease, Inc.	\$ 1,190,645	\$ 427,298	\$ 763,347
Ferguson Construction	10,164,600	1,571,288	8,593,312
Reddy Electric Co.	1,515,371	142,294	1,373,077
JMC Mechanical Inc.	2,793,600	174,400	2,619,200
A1 Sprinkler Company, Inc.	452,700		452,700
Burkett Restaurant Equipment	358,000	6,190	351,810
	<u>\$16,474,916</u>	<u>\$2,321,470</u>	<u>\$14,153,446</u>

**14. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. 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, 2010.

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**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

This discussion and analysis of the Hardin Houston Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2009, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Key highlights for fiscal year 2009 are as follows:

- Net assets of governmental activities increased \$12,034,391 from prior year.
- Of the School District's \$19,073,690 in cash disbursements, only \$5,506,516 or 28.9 percent of the disbursements were offset by program receipts.
- Among major funds, the General Fund had \$7,468,497 in receipts and \$7,726,643 in disbursements. The General Fund's balance decreased \$251,557 from 2008.
- During fiscal year 2009, the School District issued \$9,204,996 in Classroom Facilities Improvement Bonds. With the bond proceeds, the School District is building a new K-12 facility. The bonds were issued to pay for the local portion of the project. The remaining portion of \$13,814,515 will be provided by the State of Ohio through the School Facilities Commission program. Voters of the School District approved additional property tax levies for 7.05 mills in August 2008 to pay for the retirement of the bonds.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting.

This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Reporting the School District as a Whole**

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

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2009, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as 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, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

**Fund Financial Statements**

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

**Governmental Funds** - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund, Bond Retirement Debt Service Fund and Construction Project Capital Projects Fund.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2009 compared to fiscal year 2008 on a modified cash basis:

**(Table 1)**  
**Net Assets**

	<b>Governmental Activities</b>	
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$15,038,641	\$3,004,250
<b>Net Assets:</b>		
<b>Restricted for:</b>		
Capital Projects	12,816,017	586,900
Debt Service	308,834	305,794
School Bus Purchases	64,358	51,544
Other Purposes	182,626	128,835
Unrestricted	1,666,806	1,931,177
<b>Total Net Assets</b>	<b>\$15,038,641</b>	<b>\$3,004,250</b>

As mentioned previously, net assets of governmental activities increased \$12,034,391 during fiscal year 2009. Unrestricted net assets decreased \$264,371 as a result of general operating disbursements exceeding receipts. Net assets restricted for capital projects increased due to bonds issued for the building construction project. In addition, monies have been received by OSFC for the building construction project. Net assets restricted for school bus purchases increased as the School District continues to accumulate the monies in order to purchase a new bus.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

Table 2 reflects the changes in net assets for fiscal year 2009 and fiscal year 2008.

**(Table 2)  
Changes in Net Assets**

	<b>Governmental Activities 2009</b>	<b>Governmental Activities 2008</b>
<b>Receipts:</b>		
<b>Program Receipts:</b>		
Charges for Services	\$ 1,011,023	\$ 899,555
Operating Grants and Contributions	832,991	521,252
Capital Grants and Contributions	3,662,502	6,183
Total Program Receipts	<u>5,506,516</u>	<u>1,426,990</u>
<b>General Receipts:</b>		
Property Taxes	1,966,329	1,795,368
Income Taxes	688,968	705,011
Grants and Entitlements Not Restricted to Specific Programs	4,164,655	4,358,977
Notes and Bonds Issued (including premium)	18,689,441	
All Other Categories	92,172	177,570
Total General Receipts	<u>25,601,565</u>	<u>7,036,926</u>
Total Receipts	<u>31,108,081</u>	<u>8,463,916</u>
<b>Disbursements:</b>		
Instruction	5,387,751	5,159,353
<b>Support Services:</b>		
Pupils and Instructional Staff	708,732	712,385
Board of Education, Administration, Fiscal and Business	807,778	742,059
Operation and Maintenance of Plant	669,652	799,607
Pupil Transportation	514,423	615,246
Central	12,770	12,388
Operation of Non-Instructional Services	246,322	246,855
Extracurricular Activities	197,694	207,408
Capital Outlay	717,167	39,210
Debt Service	9,811,401	55,473
Total Disbursements	<u>19,073,690</u>	<u>8,589,984</u>
Increase (Decrease) in Net Assets	12,034,391	(126,068)
Net Assets, Beginning of Year	3,004,250	3,130,318
Net Assets, End of Year	<u>\$15,038,641</u>	<u>\$3,004,250</u>

During fiscal year 2009, revenues increased significantly. The School District issued \$9,204,996 in Classroom Facilities Improvement Bonds. These bonds paid off \$9,209,676 of general obligation notes issued for the same purpose. With the bond proceeds, the School District is building a new K-12 facility. The bonds were issued to pay for the local portion of the project.

The remaining portion of \$13,814,515 will be provided by the State of Ohio through the School Facilities Commission program. These monies are shown as capital grants and contributions and they accounted for the increase in this category.

Voters of the School District approved additional property tax levies for 7.05 mills in August 2008 to pay for the retirement of the bonds. As a result of the new levies, property taxes increased.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

With the down turn in the economy, income taxes decreased as jobs were lost or income decreased.

Monies received for special weighted aid through State Foundation were recorded as operating grants and contributions during fiscal year 2009. During 2008, these monies were shown as not restricted.

Interest income (shown with all other categories above) fell significantly during 2009 as a result of lower interest rates.

Expenses also increased during fiscal year 2009. A large portion of the increase is related to the building construction. The large increase in debt service was the retirement of general obligation notes from the bond proceeds. In addition, the School District incurred \$192,883 in issuance costs related to the bonds. The School District purchased land for the new building during fiscal year 2009 for \$300,000.

**Governmental Activities**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property and income taxes typically make up approximately 30% of the School District's receipts. In the prior year, property taxes made up 21.2% of receipts while income taxes added an additional 8.3% of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies.

During fiscal year 2008 instruction comprised approximately 60% of the School District's disbursements. Support services made up 34% of disbursements. Due to the issuance of bonds, these percentages are skewed for 2009.

If you look at the statement of activities on page 48, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the statement entitled program cash receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net receipt (disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)  
Governmental Activities**

	<b>Total Cost Of Services 2009</b>	<b>Net Cost of Services 2009</b>	<b>Total Cost Of Services 2008</b>	<b>Net Cost of Services 2008</b>
Instruction	\$5,387,751	(\$ 4,101,048)	\$5,159,353	(\$4,323,483)
<b>Support Services:</b>				
Pupils and Instructional Staff	708,732	(518,903)	712,385	(484,631)
Board of Education, Administration, Fiscal and Business	807,778	(802,169)	742,059	(742,059)
Operation and Maintenance of Plant	669,652	(640,770)	799,607	(790,457)
Pupil Transportation	514,423	(491,074)	615,246	(593,237)
Central	12,770	(11,962)	12,388	(11,605)
Operation of Non-Instructional Services	246,322	23,378	246,855	14,921
Extracurricular Activities	197,694	(145,746)	207,408	(137,760)
Capital Outlay	717,167	2,932,521	39,210	(39,210)
Debt Service	9,811,401	(9,811,401)	55,473	(55,473)
<b>Total Disbursements</b>	<b><u>\$19,073,690</u></b>	<b><u>(\$13,567,174)</u></b>	<b><u>\$8,589,984</u></b>	<b><u>(\$7,162,994)</u></b>

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

The dependence upon state foundation and property and income tax receipts is apparent. 76 percent of instructional activities are supported through these general receipts. Operation of non-instructional services has a positive net cost of service. This represents the food service program. The positive net cost of service for capital outlay is the result OSFC monies from the State for the building construction project.

**The School District's Funds**

Total governmental funds had receipts of \$12,412,051 and disbursements of \$19,073,690. The fund balance of the General Fund decreased \$251,557. Property tax revenue in the general fund decreased due to the phase out of tangible personal property tax.

The fund balance of the Bond Retirement Fund increased \$3,040. The new bond levy caused an increase in receipts. The payment of the general obligation notes and the issuance of the general obligation bonds have been shown in this fund.

The Building Construction Project Fund is a new major fund for 2009. Receipts from note proceeds and the OSFC contributed to a \$12.4 million ending balance which will be used in the construction of the new building.

**General Fund Budgeting Highlights**

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

For the General Fund, the final budget basis revenue estimate was \$7,328,746, which was the same as the original.

During fiscal year 2009, the School District closely monitored expenditures so that expenditures were \$243,686 less than appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

The School District does not currently report its capital assets and infrastructure.

**Debt**

At June 30, 2009, the School District had a \$9,367,017 in debt outstanding. The school improvement bond was originally issued for \$598,950 and will be paid off in fiscal year 2012. The energy conservation loan was originally \$199,096 and will be paid off in fiscal year 2013. The capital facilities bonds were issued for \$9,204,996 in fiscal year 2009 and will be paid off in fiscal year 2037.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**Table 4  
Outstanding Debt at June 30,**

	<b>Amount Outstanding 6/30/2008</b>	<b>Amount Outstanding 6/30/2009</b>	<b>Amount Due in One Year</b>
<b>Governmental Activities:</b>			
School Improvement Bonds 1989 7.625%	\$120,000	\$ 90,000	\$30,000
Energy Conservation Loan 1999 5.95%	87,528	72,021	16,451
Classroom Facilities Improvement Bonds - 3.0-5.5%			
Serial Bonds		5,275,000	
Term Bonds		3,750,000	
Capital Appreciation Bonds		179,996	
Total Governmental Activities			
Long-Term Liabilities	<u>\$207,528</u>	<u>\$9,367,017</u>	<u>\$46,451</u>

The School District may not issue bonds which exceed nine percent of the total value of all property in the School District as listed and assessed for taxation. The Board of Education, though exceeding the nine percent debt limitation, is exempt from being required to qualify as a special needs district pursuant to Section 133.03(l), the proposed bond issuance is only being used to raise the School District's local share of project costs under the Classroom Facilities Program.

The School District's energy conservation debt margin was \$682,746 and the un-voted debt margin was \$83,863 at June 30, 2009.

For more information on the School District's debt, see Note 10 of the Basic Financial Statements.

**Current Issues**

The School District historically fluctuates back and forth of a break-even point over the past several years. The administration and the board of education continue to closely monitor State funding as there continues to be a reliance on the local taxpayer to maintain current levels of funding. This requires management to plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years.

On August 5, 2008, the voters of the School District approved a 7.05 mill levy. A portion of the levy, 6.55 mills, is a bond levy that will be used to pay for the local portion, \$9,209,676, needed to build a new K-12 facility. The remaining portion, \$13,814,515 has been approved for the School District by the Ohio School Facilities Commission. The ground breaking began in the late summer of 2009. The remaining portion of the levy .5 mills will generate funds needed to help maintain the new facility.

The School District recently received an AA- bond rating from Standard and Poor's.

In conclusion, the Hardin Houston Local School District continues to be committed to financial as well as educational excellence. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

This financial report is designed to provide our citizens, taxpayers, 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 questions about this report or need additional financial information contact Amy Ayers, 5300 Houston Road, Houston, OH 45333 or e-mail at [aayers@houston.k12.oh.us](mailto:aayers@houston.k12.oh.us).

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2009**

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$15,038,641</u>
<b>Net Assets:</b>	
<b>Restricted for:</b>	
Capital Projects	12,816,017
Debt Service	308,834
School Bus Purchases	64,358
Other Purposes	182,626
Unrestricted	<u>1,666,806</u>
Total Net Assets	<u>\$15,038,641</u>

*See accompanying notes to the basic financial statements.*

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
<b>Governmental Activities:</b>					
<b>Instruction:</b>					
Regular	\$4,167,039	\$752,881	\$40,806		(\$3,373,352)
Special	1,057,340	1,096	479,567		(576,677)
Vocational	98,301		12,353		(85,948)
Student Intervention Services	16,276				(16,276)
Other	48,795				(48,795)
<b>Support Services:</b>					
Pupil	343,933	13,000	173,402		(157,531)
Instructional Staff	364,799		3,427		(361,372)
Board of Education	12,414				(12,414)
Administration	537,015				(537,015)
Fiscal	256,637	5,609			(251,028)
Business	1,712				(1,712)
Operation and Maintenance of Plant	669,652	28,882			(640,770)
Pupil Transportation	514,423	4,342	6,193	\$12,814	(491,074)
Central	12,770		808		(11,962)
Operation of Non-Instructional Services	246,322	154,147	115,553		23,378
Extracurricular Activities	197,694	51,066	882		(145,746)
Capital Outlay	717,167			3,649,688	2,932,521
Principal Retirement	9,255,183				(9,255,183)
Interest and Fiscal Charges	363,335				(363,335)
Issuance Costs	192,883				(192,883)
<b>Total Governmental Activities</b>	<b><u>\$19,073,690</u></b>	<b><u>\$1,011,023</u></b>	<b><u>\$832,991</u></b>	<b><u>\$3,662,502</u></b>	<b><u>(13,567,174)</u></b>
<b>General Receipts:</b>					
<b>Property Taxes Levied for:</b>					
General Purposes					1,666,422
Capital Maintenance					20,388
Debt Service					279,519
Income Taxes Levied for General Purposes					459,312
Income Taxes Levied for Capital Outlay					229,656
Grants and Entitlements not Restricted to Specific Programs					4,164,655
Bond Anticipation Notes Issued					9,209,676
General Obligation Bonds Issued					9,204,996
Premium on Bonds Issued					274,769
Gifts and Donations not Restricted to Specific Programs					1,460
Interest					76,326
Miscellaneous					14,386
<b>Total General Receipts</b>					<b><u>25,601,565</u></b>
Change in Net Assets					12,034,391
Net Assets Beginning of Year					<u>3,004,250</u>
Net Assets End of Year					<b><u>\$15,038,641</u></b>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

	<u>General</u>	<u>Bond Retirement</u>	<u>Building Construction Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	\$1,666,806	\$308,834	\$12,448,999	\$549,644	\$14,974,283
<b>Restricted Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	64,358				64,358
Total Assets	<u>1,731,164</u>	<u>308,834</u>	<u>12,448,999</u>	<u>549,644</u>	<u>15,038,641</u>
<b>Fund Balances:</b>					
Reserved for Encumbrances	57,207		1,135,600	3,334	1,196,141
Reserved for Bus Purchases	64,358				64,358
Designated for Budget Stabilization	38,784				38,784
<b>Unreserved, Undesignated, Reported in:</b>					
General Fund	1,570,815				1,570,815
Special Revenue Funds				179,292	179,292
Debt Service Fund		308,834			308,834
Capital Projects Fund			11,313,399	367,018	11,680,417
Total Fund Balances	<u>\$1,731,164</u>	<u>\$308,834</u>	<u>\$12,448,999</u>	<u>\$549,644</u>	<u>\$15,038,641</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>General</u>	<u>Bond Retirement</u>	<u>Building Construction Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts:</b>					
Property Taxes	\$1,666,422	\$279,519		\$20,388	\$1,966,329
Income Taxes	459,312			229,656	688,968
Intergovernmental	4,487,848	38,474	\$3,448,322	480,820	8,455,464
Interest	75,239		201,366	1,087	277,692
Tuition and Fees	757,223				757,223
Extracurricular Activities				64,066	64,066
Contributions and Donations	1,460			3,318	4,778
Charges for Services	5,609			173,604	179,213
Rentals	9,425				9,425
Miscellaneous	5,959	2,934			8,893
Total Receipts	<u>7,468,497</u>	<u>320,927</u>	<u>3,649,688</u>	<u>972,939</u>	<u>12,412,051</u>
<b>Disbursements:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	4,050,600			116,439	4,167,039
Special	934,972			122,368	1,057,340
Vocational	98,301				98,301
Student Intervention Services	16,276				16,276
Other	48,795				48,795
<b>Support Services:</b>					
Pupil	159,012			184,921	343,933
Instructional Staff	357,930			6,869	364,799
Board of Education	12,414				12,414
Administration	537,015				537,015
Fiscal	245,773	6,621		4,243	256,637
Business	1,712				1,712
Operation and Maintenance of Plant	575,626			94,026	669,652
Pupil Transportation	501,290			13,133	514,423
Central	11,924			846	12,770
Operation of Non-Instructional Services				246,322	246,322
Extracurricular Activities	147,981			49,713	197,694
Capital Outlay	6,652		410,365	300,150	717,167
<b>Debt Service:</b>					
Principal Retirement	15,507	9,239,676			9,255,183
Interest and Fiscal Charges	4,863	358,472			363,335
Issuance Costs		192,883			192,883
Total Disbursements	<u>7,726,643</u>	<u>9,797,652</u>	<u>410,365</u>	<u>1,139,030</u>	<u>19,073,690</u>
Excess of Receipts Over (Under) Disbursements	<u>(258,146)</u>	<u>(9,476,725)</u>	<u>3,239,323</u>	<u>(166,091)</u>	<u>(6,661,639)</u>
<b>Other Financing Sources</b>					
Refund of Prior Year Expenditures	6,589				6,589
Bond Anticipation Notes Issued			9,209,676		9,209,676
General Obligation Bonds Issued		9,204,996			9,204,996
Premium on Notes and Bonds Issued		274,769			274,769
Total Other Financing Sources	<u>6,589</u>	<u>9,479,765</u>	<u>9,209,676</u>		<u>18,696,030</u>
Net Change in Fund Balances	(251,557)	3,040	12,448,999	(166,091)	12,034,391
Fund Balances Beginning of Year	1,982,721	305,794		715,735	3,004,250
Fund Balances End of Year	<u>\$1,731,164</u>	<u>\$308,834</u>	<u>\$12,448,999</u>	<u>\$549,644</u>	<u>\$15,038,641</u>

See accompanying notes to the basic financial statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF REVENUES, DISBURSEMENTS AND  
CHANGES IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Budget Amounts</u>			<b>Variance With Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Revenues:</b>				
Property Taxes	\$1,696,246	\$1,696,246	\$1,666,422	(\$29,824)
Income Taxes	458,000	458,000	459,312	1,312
Tuition and Fees	646,000	646,000	757,223	111,223
Interest	140,000	140,000	75,239	(64,761)
Intergovernmental	4,374,000	4,374,000	4,487,848	113,848
Charges for Services	1,000	1,000	5,609	4,609
Gifts and Donations	500	500	1,460	960
Rent	9,000	9,000	9,425	425
Miscellaneous	4,000	4,000	5,959	1,959
Total Revenues	<u>7,328,746</u>	<u>7,328,746</u>	<u>7,468,497</u>	<u>139,751</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	4,145,026	4,145,026	4,050,936	94,090
Special	907,283	907,283	936,874	(29,591)
Vocational	88,755	88,755	98,301	(9,546)
Student Intervention Services	14,600	14,600	16,276	(1,676)
Other	60,000	60,000	48,795	11,205
<b>Support Services:</b>				
Pupils	166,222	166,222	159,012	7,210
Instructional Staff	397,399	397,399	358,120	39,279
Board of Education	13,065	13,065	12,414	651
Administration	563,224	563,224	537,381	25,843
Fiscal	262,332	262,332	245,879	16,453
Business	1,400	1,400	1,712	(312)
Operation and Maintenance of Plant	659,502	659,502	577,071	82,431
Pupil Transportation	542,908	542,908	545,488	(2,580)
Central	13,227	13,227	14,059	(832)
Extracurricular Activities	143,856	143,856	147,981	(4,125)
Capital Outlay	28,353	28,353	13,182	15,171
<b>Debt Service:</b>				
Principal Retirement	15,510	15,510	15,507	3
Interest and Fiscal Charges	4,875	4,875	4,863	12
Total Expenditures	<u>8,027,537</u>	<u>8,027,537</u>	<u>7,783,851</u>	<u>243,686</u>
Excess of Revenues Over (Under) Expenditures	(698,791)	(698,791)	(315,354)	383,437
<b>Other Financing Source:</b>				
Refund of Prior Year Expenditure	2,000	2,000	6,589	4,589
Net Change in Fund Balances	(696,791)	(696,791)	(308,765)	388,026
Fund Balance at Beginning of Year	1,945,711	1,945,711	1,945,711	
Prior Year Encumbrances Appropriated	37,011	37,011	37,011	
Fund Balance at End of Year	<u>\$1,285,931</u>	<u>\$1,285,931</u>	<u>\$1,673,957</u>	<u>\$388,026</u>

See Accompanying Notes to the Basic Financial Statements.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2009**

	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$3,017	\$29,485
<b>Net Assets:</b>		
Restricted for Students		29,485
Held in Trust for Scholarships	3,017	
Total Net Assets	\$3,017	\$29,485

*See accompanying notes to the basic financial statements.*

HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Miscellaneous	\$1,125
<b>Deductions:</b>	
Scholarships	<u>1,000</u>
Change in Net Assets	125
Net Assets - Beginning of Year	<u>2,892</u>
Net Assets - End of Year	<u><u>\$3,017</u></u>

*See accompanying notes to the basic financial statements.*

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**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**1. REPORTING ENTITY**

Hardin-Houston Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government and provides educational services as authorized by State and federal agencies. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The School District is located in Shelby County. The School District is staffed by 45 non-certificated employees, 60 certificated full-time teaching personnel and 3 administrative employees who provide services to 893 students and other community members. The School District currently operates two instructional/support buildings.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

**A. Primary Government**

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Hardin Houston Local School District, this includes general operations, food service, and student related activities of the School District.

**B. Component Units**

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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District does not have any component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 13 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Western Ohio Computer Organization
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Shelby County Schools Consortium
- Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-side financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless these pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide financial 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.

**1. Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. However, the School District does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

**2. 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.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. The funds of the School District are divided as either governmental or fiduciary.

**1. Governmental Funds**

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

**General Fund** - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Bond Retirement Debt Service Fund** – The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

**Building Construction Project Fund** – The Building Construction Project Capital Projects Fund accounts for the State share and the Local share of the Ohio School Facilities Commission project and the related expenses. The School District is building a new K-12 facility.

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

**2. Fiduciary Funds**

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

**C. Basis of Accounting**

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

**D. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds, except the General Fund which is at the object level within the fund. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts 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 on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward 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.

**E. Cash and Investments**

To improve cash management, cash received by the School District is pooled and invested. 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".

Investments of the School District's 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 on the financial statements as cash equivalents

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

During fiscal year 2009, the School District invested in certificates of deposit, Fifth Third Institutional Government Money Market Fund, Federal Home Loan Mortgage Corporation bonds, and Federal National Mortgage Association bonds.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2009 was \$75,239, which included \$25,565 assigned from other School District funds.

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of buses.

**G. Inventory and Prepaid Items**

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**I. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

**J. Employer Contributions to Cost-Sharing Pension Plans**

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**K. Long-Term Obligations**

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither a other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. The School District did not have net assets restricted by enabling legislation at June 30, 2009.

**M. Fund Balance Reserves and Designations**

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the School District's intentions and is subject to change. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and bus purchases. A fund designation has been established for budget stabilization.

**N. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**O. Estimates**

The modified cash basis of accounting used by the School District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

**3. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year-end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year-end (budgetary basis) amounted to:

General Fund	\$57,207
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**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**4. 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;
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 provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**4. DEPOSITS AND INVESTMENTS (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

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

At fiscal year-end, the carrying amount of the School District's deposits was \$10,312,345 and the bank balance was \$10,421,719. \$5,654,498 of the School District's deposits was insured by federal depository insurance. As of June 30, 2009, \$4,767,221 of the School District's bank balance of \$10,421,719 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

**B. Investments**

The School District had the following investments at fiscal year-end:

<b>Type of Investment</b>	<b>Maturity/Call Date</b>	<b>Fair Value</b>
Fifth Third Institutional Government Money Market Fund	53 days	\$7 87,274
Federal Home Loan Mortgage Corporation Bond MTN	4/10/2010	1,051,870
Federal Home Loan Mortgage Corporation Bond	2/17/2011	1,453,847
Federal Home Loan Mortgage Corporation Bond SER 1	3/18/2011	251,194
Federal Home Loan Mortgage Corporation Bond	3/23/2012	506,066
Federal National Mortgage Corporation Bond	5/5/2011	708,547
		<u>\$4,758,798</u>

**Interest Rate Risk** - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices.

**Credit Risk** – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices. The investment in Fifth Third Institutional Government Money Market Fund is rated AAAM by Standard & Poor's. The investments in the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Corporation are rated AAA by Standard and Poor's.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

**Concentration of Credit Risk** - The School District places no limits on the amount the School District may invest in any one issuer. More than 5 percent of the School District's investments are in the following:

<u>Type of Investment</u>	<u>Percentage</u>
Fifth Third Institutional Government Money Market Fund	16.54%
Federal Home Loan Mortgage Corporation Bond MTN	22.10%
Federal Home Loan Mortgage Corporation Bond	30.55%
Federal Home Loan Mortgage Corporation Bond SER 1	5.28%
Federal Home Loan Mortgage Corporation Bond	10.63%
Federal National Mortgage Corporation Bond	14.89%

**Custodial Credit Risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The federal agency securities are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the Treasurer or qualified trustee.

**5. PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied on October 1, 2008, on the value as of December 31, 2008.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**5. PROPERTY TAXES (Continued)**

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Shelby 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, 2009, are available to finance fiscal year 2009 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	<b>2008 Second- Half Collections</b>		<b>2009 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$79,354,130	90.13%	\$80,183,370	95.61%
Public Utility Personal	4,485,430	5.10%	3,524,830	4.20%
Tangible Personal Property	4,201,530	4.77%	154,800	0.19%
<b>Total</b>	<b>\$88,041,090</b>	<b>100.00%</b>	<b>\$83,863,000</b>	<b>100.00%</b>
Tax Rate per \$1,000 of Assessed Valuation	\$27.50		\$34.55	

The increase in the tax rate is due to the bond levy that was passed for the OSFC project.

**6. INCOME TAXES**

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. Income tax revenue is credited to the General Fund (one-half of one percent) and the Permanent Improvement Capital Projects Fund (one-fourth of one percent). The General Fund tax was effective on January 1, 1991, and the Permanent Improvement Capital Projects Fund tax was effective on January 1, 1997. Both are continuing taxes. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

**7. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the School District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (See Note 13). The School District pays this annual premium to Southwestern Educational Purchasing Council who in turns pays Arthur Gallagher Risk Management Services Inc.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**7. RISK MANAGEMENT**

Insurance coverage provided includes the following:

Building and Contents-replacement cost (\$1,000 deductible)	\$18,823,993
Inland Marine Coverage (\$1,000 deductible)	Actual
Money and Securities	500,000
Automobile Liability (\$1000 deductible)	1,000,000
General Liability Umbrella Policy	5,000,000
Crime/Employee Dishonesty (\$1000 deductible)	500,000
Education General Liability:	
Each Occurrence	1,000,000
Medical Expense-Any One Person/Each Accident	5,000
General Aggregate Limit	3,000,000
Employee Benefits Liability (\$1,000 deductible):	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Errors and Omissions Liability:	
Per Occurrence	1,000,000
Aggregate Limit	1,000,000

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

**B. Workers' Compensation**

For fiscal year 2009, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control and actuarial services to the GRP.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**8. 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 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rating among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year 2009, the allocation to pension and death benefits is 9.09 percent of annual covered salary.

The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$84,258, \$74,012, and \$94,359 respectively; 45.71 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**B. State Teachers Retirement System of Ohio**

**Plan Description** - The 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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

**Funding Policy** - For the fiscal year ended June 30, 2009, 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. 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 Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$413,524, \$400,311, and \$385,599, respectively; 83.39 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$6,961 made by the School District and \$6,633 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 State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2009, three members of the Board of Education have elected Social Security. The School District's liability is 6.2 percent of wages paid.

**9. 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-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

**Medicare Part B Plan** – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40, SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$6,952, \$5,333, and \$5,831 respectively; 45.71 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

**Health Care Plan** – ORC 3309.375 and 2209.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for health care surcharge.

The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$52,226, \$47,154, and \$42,191 respectively; 33.75 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

**B. State Teachers Retirement System of Ohio**

**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](http://www.strsoh.org) or by calling (888) 227-7877.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$31,810, \$30,793 and \$29,661, respectively; 83.39 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**10. DEBT**

The changes in the School District's long-term obligations during fiscal year 2009 were as follows:

	<u>Amount Outstanding 6/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2009</u>	<u>Amount Due in One Year</u>
<b>Governmental Activities:</b>					
School Improvement Bonds 1989 7.625%	\$120,000		(\$30,000)	\$ 90,000	\$30,000
Energy Conservation Loan 1999 5.95%	87,528		(15,507)	72,021	16,451
<b>Classroom Facilities:</b>					
Improvement Bonds - 3.0-5.5%					
Serial Bonds		\$5,275,000		5,275,000	
Term Bonds		3,750,000		3,750,000	
Capital Appreciation Bonds		179,996		179,996	
Total Governmental Activities					
Long-Term Liabilities	<u>\$207,528</u>	<u>\$9,204,996</u>	<u>(\$45,507)</u>	<u>\$9,367,017</u>	<u>\$46,451</u>

The School Improvement Bonds were issued October 1, 1988, for \$598,950. The un-voted general obligation bonds were issued for the purpose of school improvements. The bonds will mature December 1, 2011, and will be retired from the Bond Retirement Debt Service Fund.

The Energy Conservation Loan was issued July 7, 1998, for \$199,096. The loan was issued for the purpose of making energy conservation improvements. The loan will mature March 1, 2013, and will be retired from the General Fund.

On December 23, 2008, the School District issued \$9,204,996 in Classroom Facilities Improvement Bonds. The bonds had a premium of \$274,769 and issuance costs of \$192,883. Of the bonds, \$5,275,000 is serial bonds with interest rates from 3% to 5% with a final maturity December 1, 2029. \$3,750,000 is term bonds (\$1,975,000 with a 5.25% interest rate maturing on December 1, 2033 and \$1,775,000 with a 5.5% interest rate maturing on December 1, 2036). \$179,996 is capital appreciation bonds (maturity amount of \$275,000 on December 2016, 2017, and 2018).

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**10. DEBT (Continued)**

The term bonds due December 1, 2033, are subject to mandatory sinking fund redemption as follows:

<u>Year</u>	<u>Amount to be Redeemed</u>
2030	\$455,000
2031	480,000
2032	505,000

The remaining \$535,000 principal amount of the bonds due December 1, 2033, is to be paid at stated maturity.

The term bonds due December 1, 2036, are subject to mandatory sinking fund redemption as follows:

<u>Year</u>	<u>Amount to be Redeemed</u>
2034	\$560,000
2035	590,000

The remaining \$625,000 principal amount of the bonds due December 1, 2036, is to be paid at stated maturity. The bonds will be paid from the Bond Retirement Debt Service Fund.

The School District may not issue bonds which exceed nine percent of the total value of all property in the School District as listed and assessed for taxation. The Board of Education, though exceeding the nine percent debt limitation, is exempt from being required to qualify as a special needs district pursuant to Section 133.03(l), the proposed bond issuance is only being used to raise the School District's local share of project costs under the Classroom Facilities Program.

The School District's energy conservation debt margin was \$682,746 and the un-voted debt margin was \$83,863 at June 30, 2009.

Principal and interest requirements to retire the general obligation bonds and loans outstanding at June 30, 2009, are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>School Improvement Bonds</b>		<b>Energy Conservation Loan</b>		<b>Capital Facilities Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2010	\$30,000	\$ 5,642	\$16,451	\$3,924		\$ 433,494
2011	30,000	3,385	17,447	2,923	\$ 225,000	430,119
2012	30,000	1,128	18,508	1,862	230,000	423,294
2013			19,615	736	240,000	415,944
2014					245,000	407,756
2015-2019					699,996	2,587,404
2020-2024					1,495,000	1,764,441
2025-2029					1,885,000	1,360,187
2030-2034					2,410,000	817,019
2034-2037					1,775,000	150,012
<b>Total</b>	<b>\$90,000</b>	<b>\$10,155</b>	<b>\$72,021</b>	<b>\$9,445</b>	<b>\$9,204,996</b>	<b>\$8,789,670</b>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**11. SHORT-TERM OBLIGATION**

The following is a summary of the note activity for the School District for the year ended June 30, 2009:

	Amount Outstanding 6/30/2008	Additions	Deletions	Amount Outstanding 6/30/2009
Bond Anticipation Note	<u>\$0</u>	<u>\$9,209,676</u>	<u>(\$9,209,676)</u>	<u>\$0</u>

On September 30, 2008, the School District issued classroom facilities improvement bond anticipation note for building a new K-12 facility. The note carries a 3.75% interest rate and was repaid when bonds were issued from the bond proceeds.

**12. SET-ASIDE REQUIREMENTS**

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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements during fiscal year 2009.

	<b>Textbooks and Instructional Material</b>	<b>Capital Acquisitions</b>
Set-aside Reserve Balance as of June 30, 2008	(\$118,452)	(\$ 585,439)
Current Year Set-aside Requirement	138,488	138,488
Qualifying Disbursements	(167,179)	(3,188)
Current Year Offsets - capital maintenance levy		(41,406)
Current Year Offsets - debt levy proceeds		(317,993)
Current Year Offsets - income tax		(229,656)
Set-aside Balances Carried Forward to Future Fiscal Years	<u>(\$147,143)</u>	<u>(\$1,039,194)</u>
Amount of Set-aside Carried Forward to Future Fiscal Years	<u>(\$147,143)</u>	<u>(\$ 903,432)</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements and textbooks amounts below zero. These extra amounts of offsets may be used to reduce the set-aside requirements in future fiscal years. For capital acquisitions, the amount carried forward is limited to the amount from debt levy proceeds.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

**13. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS**

**A. Jointly Governed Organizations**

**Western Ohio Computer Organization** - The Hardin-Houston Local School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. The Western Ohio Computer Organization is one of the 23 Information Technology Center's (ITC) in the state of Ohio, which were formed in the late 70's, early 80's. These "ITC's" were originally charged to provide computer services to the member school district's fiscal offices, forming what is known today as the OECN, The Ohio Educational Computer Network. WOCO began its operations in 1980 providing computer services to 29 members school districts located in the five county area of Shelby, Auglaize, Hardin, Logan and Champaign. Today WOCO provides technical services to 34 public school districts, 5 public charter schools and 4 non-public districts.

The governing board of WOCO consists of fourteen members who consist of the Superintendent of the Fiscal Agent, two Superintendents from each county (Auglaize, Champaign, Hardin, Logan and Shelby), one representative from the city schools and one representative each from the treasurer and student services users. The School District paid WOCO \$41,892 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 E. Court Street, Sidney, Ohio 45365.

**Southwestern Ohio Educational Purchasing Council** -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2009, the School District paid \$1,327 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**13. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS  
(Continued)**

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2009, the School District paid \$693 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franlin, Ohio 45005.

**B. Insurance Purchasing Pools**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a ten member committee consisting of the Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by a majority vote of all member school districts. The Chief administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Shelby County Schools Consortium** - The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental, and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider, currently Anthem Blue Cross/Blue Shield for health and dental insurance, and Sun Life Financial for life insurance. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the service center. The degree of control exercised by any participating school district is limited to its representation on the committee. During 2009, the School District paid \$965,207 to the Consortium for benefits. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 North Ludlow St., Dayton, Ohio 45402.

**Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program** - The School District participates in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. During fiscal year 2009, the School District paid \$26,997 for insurance coverage. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

**14. SIGNIFICANT CONTRACTUAL COMMITMENTS**

As of June 30, 2009, the School District had contractual purchase commitments as follows:

<b>Vendor</b>	<b>Contract Amount</b>	<b>Expended</b>	<b>Remaining Balance</b>
Sidney City Schools - transportation	\$ 28,900		\$ 28,900
Freytag & Associates Inc.	1,301,908	\$383,531	918,377
Bricker & Eckler LLP - legal services	10,000	3,470	6,530
Sidney Tire, Inc. - bus tires	16,100	1,346	14,754
Osborn Engineering - engineering services	43,050	2,153	40,897
CTL Engineering - testing consultant	98,000		98,000
Key Blue Prints Inc - blueprinting	57,000		57,000
Lawhon & Associates - Maintenance Plan	12,150		12,150
	<u>\$1,567,108</u>	<u>\$390,500</u>	<u>\$1,176,608</u>

**15. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. 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, 2009.

**16. SUBSEQUENT EVENT**

In July 2009, the School District was named in a law suit filed by Allied Waste. A settlement of \$4,500 was paid August 29, 2009.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Grant Year</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>(Passed through the Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Non Cash Assistance:						
National School Lunch Program		10.555		\$40,799		\$40,799
Cash Assistance:						
School Breakfast Program		10.553	\$11,011		\$11,011	
National School Lunch Program		10.555	130,364		130,364	
Total Cash-Assistance			<u>141,375</u>		<u>141,375</u>	
Total Nutrition Cluster			<u>141,375</u>	<u>40,799</u>	<u>141,375</u>	<u>40,799</u>
Child and Adult Care Food Program		10.558	441		441	
Total U.S. Department of Agriculture			<u>141,816</u>	<u>40,799</u>	<u>141,816</u>	<u>40,799</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>(Passed through the Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	2009	84.010	3,269		12,033	
	2009 Neglected	84.010	(528)		304	
	2010	84.010	75,243		70,842	
Total Title I Grants to Local Educational Agencies			<u>77,984</u>		<u>83,179</u>	
Special Education Grants to States Cluster:						
Special Education Grants to States	2010	84.027	170,398		170,398	
ARRA - Special Education Grants to States	2010	84.391	101,420		101,420	
Total Special Education Grants to States Cluster			<u>271,818</u>		<u>271,818</u>	
Safe & Drug Free School and Community - State Grants	2010	84.186	2,262		2,262	
Education Technology State Grants	2010	84.318	895		895	
ARRA - State Fiscal Stabilization Funds	2010	84.394	264,312		264,312	
Improving Teacher Quality State Grants	2010	84.367	32,098		32,098	
Total U.S. Department of Education			<u>649,369</u>		<u>654,564</u>	
Total Federal Assistance			<u>\$791,185</u>	<u>\$40,799</u>	<u>\$796,380</u>	<u>\$40,799</u>

See Accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures.

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Disbursements (the Schedule) reports the Hardin Houston Local School District (the School District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

**NOTE D – NEGATIVE FEDERAL RECEIPTS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The School District did not transfer unobligated funds in the 2009 Title I Delinquent Grant to a subsequent year program and therefore returned the unused funds to Ohio Department of Education. The return of these unused funds resulted in the Schedule reporting negative receipts of \$528 for the 2009 Title I Delinquent Grant.



# Dave Yost • Auditor of State

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

Hardin-Houston Local School District  
Shelby County  
5300 Houston Road  
Houston, Ohio 45333

To the Board of Education:

We have audited the financial statements of the governmental activities, to each major fund, and the aggregate remaining fund information of Hardin-Houston Local School District, Shelby County, (the District) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 7, 2011, wherein we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

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

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

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

### **Compliance and Other Matters**

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

We did noted a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 7, 2011.

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

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

**Dave Yost**  
Auditor of State

March 7, 2011



# Dave Yost • Auditor of State

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

Hardin-Houston Local School District  
Shelby County  
5300 Houston Road  
Houston, Ohio 45333

To the Board of Education:

### Compliance

We have audited the compliance of Hardin-Houston Local School District, Shelby County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Hardin-Houston Local School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Hardin-Houston Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

### Internal Control Over Compliance

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, 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.

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



**Dave Yost**  
Auditor of State

March 7, 2011

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY**

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

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	State Fiscal Stabilization Funds – ARRA (CFDA#84.394) Special Education Cluster: CFDA #84.027: Special Education Grants to States CFDA #84.391: Special Education Grants to States, ARRA
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

HARDIN-HOUSTON LOCAL SCHOOL DISTRICT  
SHELBY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2010 and 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-001	Basketball Ticket Sales revenue discrepancies	No	Partially corrected – Reported to management of the District in a separate letter.

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# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedures

Hardin-Houston Local School District  
Shelby County  
5300 Houston Road  
Houston, Ohio 45333

To the Board of Education:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on September 11, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) A procedure for reporting prohibited incidents;
  - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
  - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
  - (6) A procedure for documenting any prohibited incident that is reported;

- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.



**Dave Yost**  
Auditor of State

March 7, 2011



# Dave Yost • Auditor of State

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT**

**SHELBY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 12, 2011**