



Dave Yost • Auditor of State

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

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

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

As discussed in Note 1 to the financial statements, the School District was placed in Fiscal Caution by the Ohio Department of Education on March 24, 2006 due to the School District's declining financial condition. Note 20 to the financial statements describes management's plans regarding these matters, and the School District's current financial status. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2011, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The 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 10, 2011

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The discussion and analysis of the Rolling Hills Local School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2010 are as follows:

- Net assets of governmental activities decreased \$169,772.
- General revenues accounted for \$15,014,575 in revenue or 82 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$3,354,273, or 18 percent of total revenues of \$18,368,848.
- The School District had \$18,538,620 in expenses related to governmental activities; only \$3,354,273 of these expenses were offset by program specific charges for services, grants and contributions. General revenues in the amount of \$15,014,575 were not adequate to provide for the remainder of these activities.

The School District has one major fund, the General Fund. The General Fund had \$14,383,845 in revenues and \$15,910,345 in expenditures. The General Fund's balance decreased \$995,466.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

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

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into consideration all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, extracurricular activities, and interest.

Reporting the School District's Most Significant Fund

Fund Financial Statements

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

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

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2010 compared to 2009.

Table 1
Net Assets

	<u>Governmental Activities</u>		
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Assets			
Current and Other Assets	\$10,029,560	\$9,141,117	\$888,443
Capital Assets	12,912,351	11,996,854	915,497
Total Assets	<u>22,941,911</u>	<u>21,137,971</u>	<u>1,803,940</u>
Liabilities			
Long-Term Liabilities	2,058,073	1,526,850	531,223
Other Liabilities	6,663,724	5,221,235	1,442,489
Total Liabilities	<u>8,721,797</u>	<u>6,748,085</u>	<u>1,973,712</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	12,237,751	11,996,854	240,897
Restricted	717,267	1,906,407	(1,189,140)
Unrestricted	1,265,096	486,625	778,471
Total Net Assets	<u>\$14,220,114</u>	<u>\$14,389,886</u>	<u>(\$169,772)</u>

Total assets increased \$1,803,940. The increase in capital assets in the amount of \$915,497 is the result of new construction offset by annual depreciation.

Total liabilities increased \$1,973,712. The increase is primarily due to the issuance of Energy Conservation Notes in the amount of \$707,824 and an increase in deferred revenue in the amount of \$1,050,083 from the prior year.

Total net assets decreased \$169,772 for the reasons stated above. Restricted net assets decreased by \$1,189,140. The balances of the School District's General Fund and the internal service fund make up the majority of unrestricted net assets.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Table 2 shows the changes in net assets for fiscal year 2010, and comparisons to fiscal year 2009.

Change in Net Assets

Revenues	Governmental Activities		
	2010	2009	Change
Program Revenues			
Charges for Services	\$1,013,416	\$893,557	\$119,859
Operating Grants and Contributions	2,340,857	3,544,693	(1,203,836)
Capital Grants and Contributions	0	26,550	(26,550)
Total Program Revenues	<u>3,354,273</u>	<u>4,464,800</u>	<u>(1,110,527)</u>
General Revenue			
Property Taxes	4,159,367	4,721,996	(562,629)
Grants and Entitlements	10,636,387	9,769,764	866,623
Investment Earnings	10,996	38,990	(27,994)
Miscellaneous	207,825	130,218	77,607
Total General Revenues	<u>15,014,575</u>	<u>14,660,968</u>	<u>353,607</u>
Total Revenues	<u>18,368,848</u>	<u>19,125,768</u>	<u>(756,920)</u>
Program Expenses			
Instruction:			
Regular	8,362,600	8,465,487	(102,887)
Special	2,171,076	1,952,146	218,930
Vocational	344,032	337,186	6,846
Intervention	28,648	0	28,648
Support Services:			0
Pupils	624,951	659,920	(34,969)
Instructional Staff	1,245,910	1,371,329	(125,419)
Board of Education	29,395	36,693	(7,298)
Administration	1,275,001	1,431,702	(156,701)
Fiscal	594,998	535,421	59,577
Operation and Maintenance of Plant	1,660,136	1,619,206	40,930
Pupil Transportation	891,511	922,145	(30,634)
Central	7,724	21,870	(14,146)
Operation of Non-Instructional Services:			0
Food Service Operations	1,011,606	1,048,512	(36,906)
Other Non-Instructional Services	7,351	11,452	(4,101)
Extracurricular Activities	278,129	267,514	10,615
Interest	5,552	12,305	(6,753)
Total Expenses	<u>18,538,620</u>	<u>18,692,888</u>	<u>(154,268)</u>
Change in Net Assets	(169,772)	432,880	(602,652)
Net Assets Beginning of Year	<u>14,389,886</u>	<u>13,957,006</u>	<u>432,880</u>
Net Assets End of Year	<u><u>\$14,220,114</u></u>	<u><u>\$14,389,886</u></u>	<u><u>(\$169,772)</u></u>

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The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 23 percent of revenues for governmental activities for Rolling Hills Local School District in fiscal year 2010.

While the School District operates a very tight budget, revenue sources are projected to keep pace with expenses through 2011 in the General Fund. Realistically changes are going to have to be made to increase revenues or decrease expenses. Enrollment is also a factor in the finances of the School District. The School District lost \$617,571 through open enrollment and \$176,262 to community schools in fiscal year 2010.

Instructional programs comprise approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 77 percent is for regular instruction, 20 percent for special instruction, and 3 percent for vocational instruction.

The largest fluctuation in program revenues was a decrease in operating grants and contributions in the amount of \$1,203,836. The largest change in general revenues is the result of a decrease in property taxes in the amount of \$562,629. This decrease is due to the elimination of a tax levy that was used to retire general obligation bonds and the phase out of tangible personal property taxes.

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

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Table 3
Governmental Activities

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Instruction:				
Regular	\$8,362,600	\$7,644,445	\$8,465,487	\$7,775,776
Special	2,171,076	1,559,381	1,952,146	416,962
Vocational	344,032	224,865	337,186	218,888
Intervention	28,648	10,383	0	0
Support Services:				
Pupils	624,951	542,741	659,920	606,799
Instructional Staff	1,245,910	750,219	1,371,329	695,762
Board of Education	29,395	29,395	36,693	36,693
Administration	1,275,001	1,269,705	1,431,702	1,414,112
Fiscal	594,998	594,998	535,421	534,935
Operation and Maintenance of Plant	1,660,136	1,615,614	1,619,206	1,532,647
Pupil Transportation	891,511	843,558	922,145	877,168
Central	7,724	5,504	21,870	19,737
Operation of Non-Instructional Services:				
Food Service Operation	1,011,606	(239)	1,048,512	77,508
Other Non-Instructional Services	7,351	3,940	11,452	2,890
Extracurricular Activities	278,129	84,286	267,514	5,906
Interest	5,552	5,552	12,305	12,305
Total Expenses	<u>\$18,538,620</u>	<u>\$15,184,347</u>	<u>\$18,692,888</u>	<u>\$14,228,088</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 82 percent of the School District's activities being supported primarily through taxes and intergovernmental revenues. 18 percent of total governmental activities are supported by program revenues in the form of charges for services, operating grants, capital grants, and contributions.

The School District's Funds

The School District's governmental funds are accounted for on the modified accrual basis of accounting. All governmental funds had total revenues in the amount of \$18,178,781 and expenditures in the amount of \$20,243,860. Total fund balances decreased \$1,318,483 including other financing sources and uses. The General Fund had total revenues in the amount of \$14,383,845 and total expenditures in the amount of \$15,910,345. The net decrease in fund balance in the amount of \$995,466 indicates that the School District has to prudently monitor the financial status of factors that are out of the School District's control.

General Fund Budgeting Highlights

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

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

During the course of fiscal 2010, the School District amended its General Fund budget. However, estimated revenue amendments were minimal and appropriation amendments were significant for the regular instruction line item. This line item had final appropriations in the amount of \$13,374,935, \$542,768 above original appropriations of \$12,832,167. The amendment was due to an increase in open enrollment costs. For the General Fund, final budgeted revenues were \$15,554,832. The General Fund actual revenues were \$15,277,831, which was \$277,001 lower than the budgeted revenues primarily due to intergovernmental estimates. Ending appropriations for the General Fund were \$16,126,021. This was \$468,127 lower than actual expenditures of \$16,594,148.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the School District had \$12,912,351 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. During fiscal year 2010, the School District purchased buildings and improvements and furniture and equipment. See Note 9 for additional information regarding capital assets.

Debt

During 2010, the School District issued Energy Conservation general obligation bonds. The bonds were issued for energy conservation improvements. See Note 15 for more detailed information of the School District's debt.

Set-asides

For fiscal year 2010, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials. For fiscal year 2010, this amounted to \$306,183 for each set aside. For fiscal year 2010, the School District did have qualifying disbursements exceeding the \$306,183 requirement for textbooks and instructional materials. However, the accumulated prior years' balances still required cash to be restricted and a reserve created for the requirement for textbooks and instructional materials. The School District did have qualifying disbursements or offsets exceeding the \$306,183 requirement for capital maintenance plus the accumulated prior years' balances. There is no required restriction or reserve for capital maintenance. See Note 19 for more detailed information of the School District's set-asides.

Economic Factors

The School District ended fiscal year 2010 with an overall decrease in net assets. Based on the current financial situation, the School District will be proactive in making additional cuts to keep expenses in line with revenues for the 2011 fiscal year. A retirement incentive plan has been implemented for the teaching staff and twenty-three teachers have accepted it over the last four fiscal years. The athletic activities are being supported out of athletic booster donations and fees collected in a pay-to-participate program. The School District's five year forecast reflects a \$996,994 carryover at the end of fiscal year 2011. The School District's emergency replacement levy, which was on the November 2006 ballot, passed, and will maintain revenues of approximately \$1,400,000 annually. Based on these factors, the board of education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to ensure the future financial stability of the School District.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Contacting the School District's Financial Management

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

Rolling Hills Local School District, Ohio

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,165,862
Accounts Receivable	32,976
Intergovernmental Receivable	342,618
Prepaid Items	41,976
Inventory Held for Resale	11,504
Materials and Supplies Inventory	75,523
Property Taxes Receivable	6,325,877
Deferred Charges	33,224
Nondepreciable Capital Assets	594,778
Depreciable Capital Assets, Net	<u>12,317,573</u>
Total Assets	<u>22,941,911</u>
Liabilities	
Accounts Payable	67,771
Accrued Wages and Benefits Payable	1,681,753
Intergovernmental Payable	468,910
Claims Payable	235,500
Accrued Interest Payable	1,164
Deferred Revenue	3,779,420
Contracts Payable	334,583
Retainage Payable	14,472
Matured Compensated Absences Payable	80,151
Long-Term Liabilities:	
Due Within One Year	408,528
Due In More Than One Year	<u>1,649,545</u>
Total Liabilities	<u>8,721,797</u>
Net Assets	
Invested in Capital Assets	12,237,751
Restricted for:	
Debt Service	47,284
Other Purposes	313,124
Textbooks and Instructional Materials	313,446
Capital Improvements	3,873
Bus Purchase	37,456
Unclaimed Monies	2,084
Unrestricted	<u>1,265,096</u>
Total Net Assets	<u><u>\$14,220,114</u></u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net Expense and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction:				
Regular	\$8,362,600	\$498,550	\$219,605	(\$7,644,445)
Special	2,171,076	0	611,695	(1,559,381)
Vocational	344,032	0	119,167	(224,865)
Intervention	28,648	0	18,265	(10,383)
Support Services:				
Pupils	624,951	13,492	68,718	(542,741)
Instructional Staff	1,245,910	2,916	492,775	(750,219)
Board of Education	29,395	0	0	(29,395)
Administration	1,275,001	0	5,296	(1,269,705)
Fiscal	594,998	0	0	(594,998)
Operation and Maintenance of Plant	1,660,136	14,478	30,044	(1,615,614)
Pupil Transportation	891,511	46,114	1,839	(843,558)
Central	7,724	0	2,220	(5,504)
Operation of Non-Instructional Services:				
Food Service Operations	1,011,606	247,923	763,922	239
Other Non-Instructional Services	7,351	0	3,411	(3,940)
Extracurricular Activities	278,129	189,943	3,900	(84,286)
Interest	5,552	0	0	(5,552)
Total Governmental Activities	\$18,538,620	\$1,013,416	\$2,340,857	(15,184,347)
 General Revenues				
Property Taxes Levied for:				
General Purposes				4,159,367
Grants and Entitlements not Restricted to Specific Programs				10,636,387
Investment Earnings				10,996
Miscellaneous				207,825
Total General Revenues				15,014,575
 Change in Net Assets				 (169,772)
 Net Assets Beginning of Year				 14,389,886
 Net Assets End of Year				 \$14,220,114

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,463,584	\$642,714	\$2,106,298
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	367,458	0	367,458
Accounts Receivable	19,282	4,110	23,392
Intergovernmental Receivable	43,013	299,605	342,618
Prepaid Items	41,457	519	41,976
Inventory Held for Resale	0	11,504	11,504
Materials and Supplies Inventory	71,068	4,455	75,523
Property Taxes Receivable	6,325,877	0	6,325,877
Total Assets	\$8,331,739	\$962,907	\$9,294,646
Liabilities			
Matured Compensated Absences Payable	\$80,151	\$0	\$80,151
Accounts Payable	62,173	5,598	67,771
Accrued Wages and Benefits Payable	1,374,225	307,528	1,681,753
Contracts Payable	334,583	0	334,583
Retainage Payable	14,472	0	14,472
Deferred Revenue	5,959,597	28,421	5,988,018
Intergovernmental Payable	322,392	146,518	468,910
Total Liabilities	8,147,593	488,065	8,635,658
Fund Balances			
Reserved for Encumbrances	1,046,417	105,874	1,152,291
Reserved for Textbooks and Instructional Materials	313,446	0	313,446
Reserved for Property Taxes	382,731	0	382,731
Reserved for Bus Purchase	37,456	0	37,456
Reserved for Unclaimed Monies	2,084	0	2,084
Unreserved:			
Undesignated, Reported in:			
General Fund (Deficit)	(1,597,988)		(1,597,988)
Special Revenue Funds	0	280,460	280,460
Debt Service Fund	0	84,635	84,635
Capital Project Funds	0	3,873	3,873
Total Fund Balances	184,146	474,842	658,988
Total Liabilities and Fund Balances	\$8,331,739	\$962,907	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 12,912,351

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:

Property Taxes	2,163,726	
Grants	28,421	
Accounts Receivable	16,451	2,208,598

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds. 33,224

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 466,190

Some long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds:

Energy Conservation Note	(707,824)	
Note Premium	(36,187)	
Accrued Interest Payable	(1,164)	
Compensated Absences	(1,314,062)	(2,059,237)

Net Assets of Governmental Activities \$14,220,114

Rolling Hills Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$3,539,576	\$0	\$3,539,576
Intergovernmental	10,132,530	3,185,684	13,318,214
Investment Earnings	10,996	0	10,996
Tuition and Fees	506,375	154,462	660,837
Extracurricular Activities	0	79,242	79,242
Rentals	6,928	24,627	31,555
Charges for Services	0	247,923	247,923
Contributions and Donations	78,713	3,900	82,613
Miscellaneous	108,727	99,098	207,825
Total Revenues	14,383,845	3,794,936	18,178,781
Expenditures			
Current:			
Instruction:			
Regular	8,351,485	253,226	8,604,711
Special	1,341,616	888,284	2,229,900
Vocational	335,804	0	335,804
Intervention	0	28,648	28,648
Support Services:			
Pupils	464,968	171,040	636,008
Instructional Staff	593,626	654,501	1,248,127
Board of Education	29,395	0	29,395
Administration	823,456	463,357	1,286,813
Fiscal	459,260	139,755	599,015
Operation and Maintenance of Plant	1,547,796	69,265	1,617,061
Pupil Transportation	811,487	40,008	851,495
Central	938	5,210	6,148
Operation of Non-Instructional Services:			
Food Service Operations	0	1,047,063	1,047,063
Other Non-Instructional Services	0	7,351	7,351
Extracurricular Activities	25,117	245,207	270,324
Capital Outlay	1,089,800	316,000	1,405,800
Debt Service:			
Interest and Fiscal Charges	0	4,600	4,600
Issuance Costs	35,597	0	35,597
Total Expenditures	15,910,345	4,333,515	20,243,860
Excess of Revenues Over (Under) Expenditures:	(1,526,500)	(538,579)	(2,065,079)
Other Financing Source (Use)			
Energy Conservation Notes Issued	707,824	0	707,824
Premium on Notes	35,597	3,175	38,772
Transfers In	0	212,387	212,387
Transfers Out	(212,387)	0	(212,387)
Total Other Financing Source (Use)	531,034	215,562	746,596
Net Change in Fund Balances	(995,466)	(323,017)	(1,318,483)
Fund Balances Beginning of Year	1,179,612	797,859	1,977,471
Fund Balances End of Year	\$184,146	\$474,842	\$658,988

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2010*

Net Change in Fund Balances - Total Governmental Funds (\$1,318,483)

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

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

Capital Asset Additions	1,460,391	
Depreciation Expense	<u>(515,130)</u>	945,261

The cost of the capital assets is removed from the capital asset account on the statement of net assets, resulting in a loss on disposal of capital assets on the statement of activities. (29,764)

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

Grants	(423,583)	
Delinquent Taxes	619,791	
Miscellaneous	<u>(6,141)</u>	190,067

Long-term note proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities on the statement of activities. Governmental funds report the effect of premiums and discounts when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Premium on Energy Conservation Notes	(38,772)	
Energy Conservation Notes	<u>(707,824)</u>	(746,596)

Issuance costs are reported as an expenditures when paid in the governmental funds, but is deferred and amortized on the statements of activities. This is the unamortized issuance costs on the bonds. 35,597

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Bond Premium	2,585	
Amortization of Issuance Costs	(2,373)	
Interest Payable	<u>(1,164)</u>	(952)

Some expenses reported on the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Early Retirement Incentive Payable	192,000	
Compensated Absences Payable	<u>20,788</u>	<u>212,788</u>

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 542,310

Change in Net Assets of Governmental Activities (\$169,772)

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$4,211,200	\$4,311,163	\$4,471,524	\$160,361
Intergovernmental	10,206,011	10,454,067	10,090,637	(363,430)
Investment Earnings	66,298	70,000	70,996	(59,004)
Tuition and Fees	524,341	535,448	512,705	(22,743)
Rentals	5,306	5,306	6,928	1,622
Contributions and Donations	73,209	76,911	78,713	1,802
Miscellaneous	98,235	101,937	106,328	4,391
Total Revenues	15,184,600	15,554,832	15,277,831	(277,001)
Expenditures				
Current:				
Instruction:				
Regular	12,832,167	13,374,935	8,548,447	4,826,488
Special	616,904	649,973	1,330,954	(680,981)
Vocational	60,751	60,751	336,881	(276,130)
Support Services:				
Pupils	114,218	114,218	460,664	(346,446)
Instructional Staff	78,263	81,573	585,466	(503,893)
Board of Education	33,516	33,516	26,180	7,336
Administration	68,766	72,076	869,206	(797,130)
Fiscal	234,193	247,431	445,887	(198,456)
Operation and Maintenance of Plant	855,957	908,910	2,055,165	(1,146,255)
Pupil Transportation	165,929	179,167	766,460	(587,293)
Central	2,407	2,407	3,835	(1,428)
Operation of Non-Instructional Services:				
Other Non-Instructional Services	211	211	211	0
Extracurricular Activities	0	0	25,235	(25,235)
Capital Outlay	400,853	400,853	1,103,960	(703,107)
Debt Service:				
Issuance Costs	0	0	35,597	(35,597)
Total Expenditures	15,464,135	16,126,021	16,594,148	(468,127)
Excess of Revenues Over (Under) Expenditures	(279,535)	(571,189)	(1,316,317)	(745,128)
Other Financing Sources (Uses)				
Advances In	3,678	3,678	2,970	(708)
Energy Conservation Notes Issued	440,000	440,000	707,824	267,824
Premium on Notes Issued	0	0	35,597	35,597
Transfers Out	(120,000)	(120,000)	(150,431)	(30,431)
Total Other Financing Sources (Uses)	323,678	323,678	595,960	272,282
Net Change in Fund Balance	44,143	(247,511)	(720,357)	(472,846)
Fund Balance Beginning of Year	1,194,022	1,194,022	1,194,022	0
Prior Year Encumbrances Appropriated	264,143	264,143	264,143	0
Fund Balance End of Year	\$1,502,308	\$1,210,654	\$737,808	(\$472,846)

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2010

	Medical-Dental-Prescription Self-Insurance
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$692,106
Accounts Receivable	9,584
Total Current Assets	<u>701,690</u>
Current Liabilities	
Claims Payable	<u>235,500</u>
Net Assets	
Unrestricted (Deficit)	<u><u>\$466,190</u></u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2010

	Medical-Dental-Prescription Self-Insurance
Operating Revenues	
Charges for Services	\$3,421,800
Operating Expenses	
Purchased Services	493,210
Claims	2,386,280
Total Operating Expenses	2,879,490
Operating Income	542,310
Net Assets (Deficit) at Beginning of Year	(76,120)
Net Assets at End of Year	\$466,190

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2010

	<u>Medical-Dental-Prescription Self-Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$3,421,800
Cash Payments to Suppliers for Services	(493,210)
Cash Payments for Claims	<u>(2,385,969)</u>
Net Cash Provided by Operating Activities	542,621
Net Increase in Cash and Cash Equivalents	542,621
Cash and Cash Equivalents Beginning of Year	<u>149,485</u>
Cash and Cash Equivalents End of Year	<u><u>\$692,106</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$542,310
Changes in Assets and Liabilities	
Decrease in Stop Loss Reimbursement Receivable	86,011
Increase in Claims Payable	<u>(85,700)</u>
Total Changes in Assets and Liabilities	311
Net Cash Provided by Operating Activities	<u><u>\$542,621</u></u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$9,870	\$33,038
Cash and Cash Equivalents in Segregated Accounts	0	9,006
Total Assets	<u>9,870</u>	<u>\$42,044</u>
Liabilities		
Undistributed Monies	0	\$16,122
Due to Students	0	25,922
Total Liabilities	<u>0</u>	<u>\$42,044</u>
Net Assets		
Held in Trust for Scholarships	<u>\$9,870</u>	

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Changes in Fiduciary Net Assets

Fiduciary Fund

For the Fiscal Year Ended June 30, 2010

	Private Purpose Trust
Additions	
Interest	\$22
Deductions	
Payments in Accordance with Trust Agreements	168
Change in Net Assets	(146)
Net Assets Beginning of Year	10,016
Net Assets End of Year	\$9,870

See accompanying notes to the basic financial statements

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Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five member Board of Education. The School District provides educational services as authorized by its charter and further mandated by state and federal agencies. This Board controls the School District's six instructional support facilities staffed by 89 classified employees, 124 certificated teaching employees, and 25 administrative personnel who provide services to 1,878 students.

The Superintendent of Public Instruction declared the Rolling Hills Local School District in a state of fiscal caution effective March 24, 2006. See Note 20 for more information.

Reporting Entity

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

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

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

The School District participates in five jointly governed organizations and one group insurance purchasing pool. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Mid-East Career and Technology Centers, the Metropolitan Educational Council, the Coalition of Rural and Appalachian Schools, the Ohio Coalition for Equity and Adequacy of School Funding, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. Additional information concerning these organizations is presented in Notes 16 and 17.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

B. Fund Accounting

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

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

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

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

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

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

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

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, fees, and rentals.

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

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

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

During fiscal year 2010, investments were limited to a sweep money market savings account which is reported at cost and STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2010.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2010 amounted to \$10,996, which includes \$5,379 assigned from other School District funds.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

G. Inventory

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

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

H. Capital Assets

All of the School District's capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

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

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

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

I. Interfund Balances

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

J. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents required by State statute to be set aside to create a reserve for textbooks and instructional materials, capital improvements, unclaimed monies, and unspent revenues restricted for the purchase of buses. See Note 19 for additional information regarding set asides.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

K. Compensated Absences

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

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

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

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

L. Accrued Liabilities and Long-term Obligations

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

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

M. Note Premiums, Discounts, and Issuance Costs

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Note premiums and discounts are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Notes payable are reported net of the applicable note premium or discount. Note issuance costs are recorded as deferred charges and amortized over the term of the related debt.

Note discounts on the capital appreciation notes are deferred and accreted over the term of the notes.

Any gain/loss on refunding is allocated over the life of the old debt or the new debt whichever is shorter.

On the governmental fund financial statements, issuance costs, note premiums, and note discounts are recognized in the period in which the debt is issued. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

N. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide statements.

Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for textbooks and instructional materials represents amounts required to be set-aside by statute for the purchase of textbooks and instructional materials. The reserve for bus purchase represents amounts required to be spent on the purchase of buses. The reservation for unclaimed monies is established because, by law, unclaimed monies are not available for appropriation until they have remained unclaimed for five years.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for federal and state grants restricted to expenditures for specified purposes. The government-wide statement of net assets reports \$717,267 of restricted net assets of which none have been restricted by enabling legislation.

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

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Q. Operating Revenues and Expenses

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

R. Extraordinary and Special Items

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

S. Estimates

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

T. Budgetary Data

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

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

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

Note 3 - Change in Accounting Principles

Changes in Accounting Principles - For 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Financial Reporting for

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Intangible Assets”, Statement No. 53, “ Accounting and Financial Reporting for Derivative Instruments”, Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, and Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any material change to the School District’s financial statements.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District’s financial statements.

Note 4 - Accountability

The Miscellaneous Federal Grants Special Revenue Fund reflects a deficit fund balance at June 30, 2010, in the amount of \$20,761. This deficit is due to the recognition of payables in accordance with generally accepted accounting principles.

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

Note 5 - Budgetary Basis of Accounting

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

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

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

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

Net Change in Fund Balance	
GAAP Basis	(\$995,466)
Net Adjustment for Revenue Accruals	893,986
Prepaid Items:	
Beginning of Fiscal Year	51,866
End of Fiscal Year	(41,457)
Net Adjustment for Expenditure Accruals	352,205
Advances In	2,970
Transfers Out	61,956
Encumbrances	(1,046,417)
Budget Basis	<u><u>(\$720,357)</u></u>

Note 6 - Deposits and Investments

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

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

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

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$3,236,461 of the School District's bank balance of \$3,536,762 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

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

Investments As of June 30, 2010, the School District had monies invested in STAROhio. The fair value of the investment in STAROhio is \$15,475 and the fund had an average maturity of 56 days at fiscal year end.

Interest Rate Risk. The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or permits the sale of negotiable instruments prior to maturity

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

in accordance with the law. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment be purchased with the expectation that it will be held to maturity.

Credit Risk. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy regarding credit risk.

Note 7 - 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 collections are received by the School District in the second half of the fiscal year. Second-half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenues received in calendar year 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2010 represent collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenue received in calendar 2010 (other than public utility property tax) represents the collection of calendar year 2010 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 2010 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 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Payments made by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including Rolling Hills Local School District. The School District receives property taxes from Guernsey, Muskingum, and Noble Counties. The county auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2010, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

At June 30, 2010, \$382,731 was available as an advance in the General Fund. The amount available as an advance at June 30, 2009, was \$1,314,679 in the General Fund.

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

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

	2009 First-		2010 First-	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$165,885,600	87.21%	\$171,124,010	93.82%
Public Utility Personal	10,155,960	5.34%	10,745,290	5.89%
General Business Personal	14,160,590	7.45%	520,820	0.29%
Total	<u>\$190,202,150</u>	<u>100.00%</u>	<u>\$182,390,120</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$29.08		\$29.08	

Note 8 - Receivables

Receivables at June 30, 2010, consisted of property taxes, accounts (rent and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
IDEA Part B Grant	\$36,662
Title I Grant	127,215
Title I Neglected Grant	5,433
Title I School Improvement	20,356
Safe and Drug Free Schools Grant	8,910
Title II-D Grant	137
Title II-A Grant	529
Title VI-B	14,236
Miscellaneous intergovernmental receivables	<u>129,140</u>
Total	<u>\$342,618</u>

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 9 - Capital Assets

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

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Nondepreciable Capital Assets				
Land	\$214,502	\$0	\$0	\$214,502
Construction in Progress	0	380,276	0	380,276
Total Nondepreciable Capital Assets	<u>214,502</u>	<u>380,276</u>	<u>0</u>	<u>594,778</u>
Depreciable Capital Assets				
Land Improvements	704,585	0	0	704,585
Buildings and Improvements	18,046,140	1,009,556	(45,304)	19,010,392
Furniture and Equipment	1,601,556	70,559	(54,884)	1,617,231
Vehicles	1,245,046	0	0	1,245,046
Total at Historical Cost	<u>21,597,327</u>	<u>1,080,115</u>	<u>(100,188)</u>	<u>22,577,254</u>
Less Accumulated Depreciation				
Land Improvements	(216,856)	(30,084)	0	(246,940)
Buildings and Improvements	(7,365,977)	(381,327)	21,028	(7,726,276)
Furniture and Equipment	(1,304,057)	(36,509)	49,396	(1,291,170)
Vehicles	(928,085)	(67,210)	0	(995,295)
Total Accumulated Depreciation	<u>(9,814,975)</u>	<u>(515,130) *</u>	<u>70,424</u>	<u>(10,259,681)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>11,782,352</u>	<u>564,985</u>	<u>(29,764)</u>	<u>12,317,573</u>
Governmental Activities Capital Assets, Net	<u>\$11,996,854</u>	<u>\$945,261</u>	<u>(\$29,764)</u>	<u>\$12,912,351</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$161,886
Special	29,391
Vocational	9,454
Support Services:	
Pupils	22,694
Instructional Staff	52,210
Administration	25,212
Fiscal	6,303
Operation and Maintenance of Plant	49,574
Pupil Transportation	100,062
Central	1,576
Extracurricular	32,427
Operation of Non-Instructional Services:	
Food Service Operations	24,341
Total Depreciation Expense	<u>\$515,130</u>

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 10 - Interfund Transfers and Balances

Transfers made during fiscal year 2010 consist of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$0	\$212,387
Other Non-Major Governmental Funds:		
Food Service	\$99,000	
District Managed Activities	61,860	
Miscellaneous Local Funds	26,527	
Miscellaneous Federal Funds	25,000	0
Total	<u>\$212,387</u>	<u>\$212,387</u>

The transfers to the Food Service, District Managed Activities and Miscellaneous Local Funds, and Miscellaneous Federal Funds Special Revenue Funds were made to move unrestricted revenues collected in the General Fund to help finance various programs accounted for in these funds in accordance with budgetary authorization.

Note 11 - 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 contracted with the Ohio Casualty Insurance Company through Kennedy Insurance Agency. Coverage provided is as follows:

Rolling Hills Local School District, Ohio
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For the Fiscal Year Ended June 30, 2010

Commercial Property Coverage Blanket	\$53,366,117	\$1,000 deductible
Commercial Crime Coverage	\$25,000	\$500 deductible
Computer Equipment Coverage	\$250,000	\$1,000 deductible
Special Property Coverage	\$53,045 - \$273,253	\$1,000 deductible
 Fleet Insurance:		
Liability	\$1,000,000	any one accident
Auto Medical Payments	\$5,000	any one accident
Uninsured Motorists	\$1,000,000	any one accident
Comprehensive	Cash Value	\$250-\$1,000 deductible
Collision	Cash Value	\$500-\$1,000 deductible
 General Liability:		
Commercial General Liability	\$1,000,000	each occurrence
Personal and Advertising Injury	\$1,000,000	each offense
Medical Expense	\$15,000	each accident
General Aggregate	\$3,000,000	
Products Aggregate	\$3,000,000	
Employee Benefits Liability	\$1,000,000	\$1,000 Deductible
Aggregate	\$3,000,000	
Employers' Liability	\$1,000,000	
Errors and Omissions	\$1,000,000	
Aggregate	\$1,000,000	
Employment Practices	\$1,000,000	
Aggregate	\$1,000,000	

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2010.

B. Workers' Compensation

For fiscal year 2010, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical Benefits

The School District has elected to provide employee medical/surgical, dental, and prescription drug benefits through a self-insured plan. Medical Benefits serves as claims servicer for this coverage. The claims liability of \$235,500 reported in the internal service fund at June 30, 2010, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Rolling Hills Local School District, Ohio
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For the Fiscal Year Ended June 30, 2010

Changes in the fund's claims liability amount in fiscal years 2009 and 2010 were:

	Balance at Beginning of Year	Current Year Claims		Claim Payments	Balance at End of Year
2009	\$293,500	\$2,312,442		\$2,284,742	\$321,200
2010	321,200	2,300,269	(1)	2,385,969	235,500
(1) Claims Expense		\$2,386,280			
Decrease in Stop Loss Reimbursement Receivable		(86,011)			
Current Year Claims		\$2,300,269			

Note 12 - Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 260 days for classified employees and administrative personnel and 255 days for certified employees. Upon retirement, all employees receive payment for one-fourth of their total sick leave accumulation.

B. Insurance

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

Note 13 - Defined Benefit Pension Plans

A. School Employee 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The

Rolling Hills Local School District, Ohio

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For the Fiscal Year Ended June 30, 2010

contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$356,389, \$215,983 and \$198,714 respectively; 43.45 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

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

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

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. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$863,588, \$833,049 and \$863,907 respectively; 80.94 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

to the DC and Combined Plans for fiscal year 2010 were \$4,973 made by the School District and \$12,587 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2010, two members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Note 14 - Postemployment Benefits

A. School Employee 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. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

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

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$68,258, \$98,844 and \$137,785 respectively; 43.45 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 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 \$21,260, \$17,820 and \$14,772 respectively; 43.45 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strosoh.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 \$66,430, \$64,081 and \$66,454 respectively; 80.94 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 15 - Long-Term Obligations

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

	Outstanding 6/30/2009	Additions	Reductions	Outstanding 6/30/2010	Amounts Due Within One Year
Governmental Activities					
2010 Energy Conservation Notes					
Serial/Term Notes 2.0% - 4.15%	\$0	\$680,000	\$0	\$680,000	\$50,000
Capital Appreciation Notes 14.41%	0	27,824	0	27,824	0
Capital Appreciation Notes-					
Accretion of Interest	0	0	0	0	0
Premium	0	38,772	2,585	36,187	0
Total Energy Conservation Notes	0	746,596	2,585	744,011	50,000
Retirement Incentive	536,000	0	192,000	344,000	192,000
Compensated Absences Payable	990,850	128,938	149,726	970,062	166,528
Total Governmental Activities					
Long-Term Liabilities	<u>\$1,526,850</u>	<u>\$875,534</u>	<u>\$344,311</u>	<u>\$2,058,073</u>	<u>\$408,528</u>

2010 Energy Conservation Notes – On March 11, 2010, Rolling Hills Local School District issued \$707,824 of general obligation notes, pursuant to House Bill 264. The notes were issued to finance an energy conservation project. The notes were issued at 2.0 – 4.15 percent interest rate. The issuance of the notes included a \$38,772 premium and \$35,597 in note issuance costs that will be amortized over the life of the issue, with a final maturity at December 1, 2024. \$2,373 in issuance costs were amortized during fiscal year 2010.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

As part of the note issuance, the School District, pursuant to Section 3317.18, Ohio Revised Code, and Section 3301-8-01, Ohio Administrative Code, participated in the Ohio Credit Enhancement Program, and was assigned a rating of Aa3 from Moody's Investors Service for the note issuance. In the event the School District is unable to make sufficient debt service payments and the payment will not be made by a credit enhancement facility, the department of education will make the sufficient payment.

The Current Interest Term Notes maturing on December 1, 2014, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2011	\$40,000
2012	45,000
2013	50,000

The remaining principal amount of such Current Interest Term Notes (\$50,000) will be paid at stated maturity on December 1, 2014.

The Current Interest Term Notes maturing on December 1, 2017, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2015	\$45,000
2016	50,000

The remaining principal amount of such Current Interest Term Notes (\$50,000) will be paid at stated maturity on December 1, 2017.

The Current Interest Term Notes maturing on December 1, 2024, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2020	\$60,000
2021	60,000
2022	60,000
2023	60,000

The remaining principal amount of such Current Interest Term Notes (\$60,000) will be paid at stated maturity on December 1, 2024.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

The Current Interest Notes maturing on or after December 1, 2020 are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any date on or after June 1, 2020, at a redemption price equal to 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The capital appreciation notes for the 2010 issue mature December 1, 2018 through December 1, 2019. At maturity all compounded interest is paid and the note holder receives the face value of the note. As the value of the note increases, the accretion is reflected as a liability. The maturity amount of the notes is \$100,000. Due to the note issuance occurring late in fiscal year 2010, \$0 was accreted and \$0 of accretion was paid, leaving a total note liability of \$100,000.

Principal and Interest requirements to retire the remaining outstanding notes for the 2010 Energy Conservation Notes outstanding at June 30, 2010 are as follows:

Fiscal Year	Serial/Term Notes		Capital Appreciation Notes		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2011	\$50,000	\$10,895	\$0	\$0	\$50,000	\$10,895
2012	40,000	20,790	0	0	40,000	20,790
2013	45,000	19,990	0	0	45,000	19,990
2014	50,000	19,090	0	0	50,000	19,090
2015	50,000	18,090	0	0	50,000	18,090
2016-2020	145,000	71,690	27,824	72,176	172,824	143,866
2021-2025	300,000	37,350	0	0	300,000	37,350
Totals	\$680,000	\$197,895	\$27,824	\$72,176	\$707,824	\$270,071

Compensated absences will be paid from the General Fund and the Food Service Special Revenue Fund.

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

The overall debt margin of the School District as of June 30, 2010, was \$16,405,998, with an unvoted debt margin of \$181,348.

Note 16 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency

Ohio Mid Eastern Regional Educational Service Agency - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) is a jointly governed organization created as a regional council of governments pursuant to State Statutes. OME-RESA participants consist of school districts and county educational service centers. OME-RESA provides financial accounting services, educational management information, and cooperative purchase services to member districts. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a governing board which is selected by the member districts. Each district has one vote in all matters, and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the governing board. OME-RESA has no outstanding debt. During fiscal year 2010, the total amount paid to OME-RESA from the School District was \$50,378 for cooperative gas purchasing services and \$28,578 for educational management information and internet access. The

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952. Effective July 1, 2010, the information technology portion of the OME-RESA consortium was dissolved. See Subsequent Event Note 21 for further details.

B. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational services to its thirteen member school districts. The Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the vocational school is not dependent on the District's continued participation and no equity interest exists. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 43701.

C. Metropolitan Educational Council

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 100 members which includes school district, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the cost of administering the program. The School District's membership payment to MEC for fiscal year 2010 was \$765. Financial information may be obtained from the Metropolitan Educational Council, Fiscal Officer, at 6100 Channingway Blvd, Suite 604, Columbus, Ohio 43232.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is comprised of fourteen members. The board members are comprised of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2010.

E. The Ohio Coalition of Equity and Adequacy of School Funding

The Ohio Coalition of Equity and Adequacy of School Funding is organized as a council of governments pursuant to Chapter 167 of the Ohio Revised Code. The Coalition was organized in 1990 to challenge the constitutionality of the Ohio school funding system. The Coalition is governed by a Steering Committee of 90 school district representatives. Though most of the representatives are superintendents, some treasurers, board members, and administrators also serve. Several persons serve as ex officio members.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

The membership of the coalition includes over 500 school districts throughout the State of Ohio. Member school districts and joint vocational schools pay dues of \$.05 per pupil. School districts and joint vocational schools may also pay supplemental dues in the amount of \$.50 per pupil for K-12 districts and educational service centers pay dues of \$.05 per pupil. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest or financial responsibility for the Coalition. During fiscal year 2010, the School District paid \$999 to the Coalition. Financial information can be obtained by contacting the Coalition's fiscal agent, Muskingum Valley Educational Service Center, 205 North Seventh Street, Zanesville, Ohio 43701-3709.

Note 17 - Insurance Purchasing Pool

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

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

B. Litigation

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

Note 19 - Set Asides

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

Pursuant to State statute, the Board of Education expended all of the amounts previously set-aside for the budget reserve.

Effective June 30, 2005, through Amended Substitute House Bill 66, school districts that are declared to be in Fiscal Caution, may either reduce or eliminate the set-aside, provided that the districts apply and receive approval from the Ohio Department of Education. The School District remained in Fiscal Caution during fiscal year 2010, but did not request a waiver of the set-aside requirement for fiscal year 2010.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

	Textbooks	Capital Improvements
Set-aside Reserve Balance		
as of June 30, 2009	\$534,933	\$153,187
Current Year Set-aside Requirement	306,183	306,183
Qualifying Disbursements	(527,670)	(517,081)
Total	\$313,446	(\$57,711)
Set-aside Balance Carried Forward		
to Future Fiscal Years	\$313,446	\$0

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount for capital improvements to below zero that may not be carried forward to future years, but has capital expenditures from debt proceeds in connection with an energy conservation project that may be utilized to offset future set-aside requirements.

Note 20 - Financial Difficulties

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

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

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

The five year forecast submitted to the Ohio Department of Education on October 14, 2010, reflected a positive General Fund balance for fiscal years 2011 and a \$143,533 deficit balance for 2012.

Note 21 – Subsequent Events

A. Council of Governments

Effective July 1, 2010, the information technology portion of the OME-RESA consortium has been dissolved. On July 1, 2010, the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Council of Governments (OME-RESA Council) was established pursuant to Ohio Revised Code Section 167.01. The Board of Education of Rolling Hills Local School District has passed a resolution approving membership in the OME-RESA Council and is currently receiving information technology services through the Council.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

B. School Employees Retirement System

Effective July 1, 2010, the SERS has changed the Ohio Department of Education Foundation Program deductions for traditional public schools from a calendar year basis, six month in arrears, to a fiscal year basis, which will coincide with the participating School Districts' fiscal year. As a result, the Foundation deductions which would have been collected six months in arrears became due June 30, 2010. Rolling Hills Local School District will have the balance due paid in equal installments over a six year period beginning July, 2010

C. Federal Grant

The School District has been approved for \$486,231 of Federal Education Jobs Fund Program Dollars as part of Public Law No. 111-226, signed by President Obama on August 10, 2010. This program provides assistance to save or create education jobs. The allocation will be available to fund fiscal year 2011.

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**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program	2009/2010	10.555	\$ 50,509	\$ 50,509
Cash Assistance:				
School Breakfast Program	2009/2010	10.553	169,628	169,628
National School Lunch Program	2009/2010	10.555	361,880	361,880
Cash Assistance Subtotal			<u>531,508</u>	<u>531,508</u>
Total Child Nutrition Cluster			582,017	582,017
Child Nutrition Discretionary Grants Limited Availability	2009/2010	10.579	<u>28,311</u>	<u>28,311</u>
Total U.S. Department of Agriculture			610,328	610,328
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	2009	84.010	69,590	104,396
	2010		<u>585,742</u>	<u>595,788</u>
Total Title I Grants to Local Educational Agencies			655,332	700,184
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	2010	84.389	<u>216,027</u>	<u>160,131</u>
Total Title I, Part A Cluster			871,359	860,315
Special Education Cluster:				
Special Education Grants to States	2009	84.027	54,214	60,721
	2010		<u>362,584</u>	<u>326,392</u>
Total Special Education Grants to States			416,798	387,113
ARRA - Special Education Grants to States, Recovery Act	2010	84.391	<u>214,106</u>	<u>203,174</u>
Total Special Education Cluster			630,904	590,287
Safe and Drug-Free Schools and Communities - State Grants	2009	84.186	5,000	6,442
	2010		951	5,550
Total Safe and Drug-Free Schools and Communities - State Grants			<u>5,951</u>	<u>11,992</u>
State Grants for Innovative Programs	2009	84.298	2,017	2,874
Education Technology State Grants	2009	84.318	3,000	2,774
	2010		<u>1,475</u>	<u>1,612</u>
Total Education Technology State Grants			4,475	4,386
Rural and Low Income Grants	2010	84.358	4,092	
Improving Teacher Quality State Grants	2009	84.367	14,472	23,268
	2010		<u>110,877</u>	<u>95,558</u>
Total Improving Teacher Quality Grants			125,349	118,826
School Improvement Grants	2009	84.377	11,946	11,946
	2010		<u>73,601</u>	<u>88,386</u>
Total School Improvement Grants			85,547	100,332
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	2010	84.394	<u>602,186</u>	<u>579,620</u>
Total U.S. Department of Education			<u>2,331,880</u>	<u>2,268,632</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 2,942,208</u>	<u>\$ 2,878,960</u>

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

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports 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.



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*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Rolling Hills Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 10, 2011, wherein we noted the School District was placed in Fiscal Caution by the Ohio Department of Education on March 24, 2006 due to the School District's declining financial condition. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

We did note certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated March 10, 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 with the School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 10, 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

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

To the Board of Education:

Compliance

We have audited the compliance of the Rolling Hills Local School District, Guernsey County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2010. The Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

As described in Finding 2010-01 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with requirements regarding Activities Allowed or Unallowed and Allowable Costs/Cost Principles applicable to its ARRA State Fiscal Stabilization Fund (SFSF) Education State Grants, Recovery Act major federal program. Compliance with this requirement is necessary, in our opinion, for the School District to comply with requirements applicable to this program.

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-01 to be a material weakness.

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

We also noted a matter involving federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated March 10, 2011.

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



Dave Yost
Auditor of State

March 10, 2011

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified – State Fiscal Stabilization Fund – Education State Grants Unqualified – Title I, Part A Cluster and Special Education (IDEA) Cluster
(d)(1)(vi)	Are there any reportable findings under Section .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I, Part A Cluster– CFDA# 84.010 & 84.389; Special Education (IDEA) Cluster - CFDA # 84.027 & 84.391; State Fiscal Stabilization Fund – CFDA #84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2010-01
CFDA Title and Number	ARRA State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act - #84.394
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness and Questioned Cost

2 C.F.R. Part 225 App. B Sections 8.a - d indicate that compensation for personal services include all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries and fringe benefits. Costs which are unallowable under other sections of these principles shall not be allowable under this section solely on the basis that they constitute personnel compensation. Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefits plans.

In spite of compensation for personal services qualifying as an allowable cost above, state law prohibits school districts from charging compensation for Treasurers' personal services to Federal funds. Ohio Rev. Code Section 3313.29 states, in part that the Treasurer of each Board of Education shall keep an account of all school funds of the School District. Additionally, Ohio Rev. Code Section 3313.24 indicates that the Board of Education shall fix the compensation of its Treasurer, which shall be paid from the General Fund of the School District.

During fiscal year 2010, compensation of \$58,876 was paid to Treasurer Jeff Walters with SFSF grant funds. As noted above, this is contrary to Ohio Rev. Code Section 3313.24, which requires payment of the Treasurer's salary from the General Fund. For this reason, we are issuing a questioned cost in the amount of \$58,876.

We recommend the School District be aware of allowable costs of the SFSF grant and consult with the Ohio Department of Education to determine corrective action for this matter. Recognizing that there is time devoted to managing Federal programs, treasurers do have the option to apply for an indirect cost rate from the Ohio Department of Education to offset a portion of these costs. Ohio's indirect cost plan is based on a restricted rate, which is wholly consistent with the basis principle of Federal funds supplementing local and state funds rather than supplanting those funds.

ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

**FINDING NUMBER 2010-01
(Continued)**

Noncompliance and Material Weakness and Questioned Cost (Continued)

Officials' Response: The Treasurer was not aware of the fact that his salary could not be taken out of the SFSF funds. It was corrected as soon as the Treasurer was made aware of the situation.

The Treasurer attended several meetings sponsored by the Ohio Department of Education, and this matter was not discussed at any of the meetings that the Treasurer attended. These funds did have a different set of rules than the federal funds we have received in the past. In fact, the rules for these funds were changing by the week back in July of 2009. The Rolling Hills Local School District first received these funds in July of 2009. However, the School District did not spend any of these funds until October of 2009 due to the fact that the Treasurer was trying to do his due diligence in the matter. It does seem odd to the Treasurer that the Superintendent and Principals' salaries were allowed to be paid out of the stimulus funds. Also, it would be greatly appreciated if the rules and regulations for such funds be developed and in place PRIOR to the receipt of federal funds.

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Dave Yost • Auditor of State

ROLLING HILLS LOCAL SCHOOL DISTRICT

GUERNSEY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 31, 2011