



Dave Yost • Auditor of State

HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Hillsboro City School District
Highland County
39 Willettsville Pike
Hillsboro, Ohio 45133

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

February 15, 2013

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of Hillsboro City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

- The assets of the Hillsboro City School District exceeded its liabilities at June 30, 2012, by \$55,608,833. Of this amount, \$3,875,047 may be used to meet the School District's ongoing financial obligations.
- The School District's net assets decreased \$488,953.
- Governmental activities general revenues accounted for \$21,163,645 of total revenues. Program specific revenues in the form of charges for services and sales, grants, contributions, and interest accounted for \$6,679,583 of total governmental revenues of \$27,843,228.
- The School District had \$27,604,508 in expenses related to governmental activities; only \$6,679,583 of these expenses were offset by program specific charges for services and sales, grants, contributions, and interest. General revenues (primarily grants, entitlements, income taxes and property taxes) of \$21,163,645 were used to provide for these programs along with unrestricted net assets from prior fiscal years.

Using the Basic Financial Statements

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

The Statement of Net Assets and the 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 major funds with all other nonmajor funds presented in total in one column. The major funds for the Hillsboro City School District are the General Fund and Debt Service Fund.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2012?” The Statement of Net Assets and the Statement of Activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all *assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal 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. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page seven. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District’s major funds.

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 government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Fiduciary Funds - The School District’s fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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 fiscal years 2012 and 2011:

(Table 1)
Net Assets
Governmental Activities

	2012	2011	Change in Net Assets
Assets:			
Current and Other Assets	\$18,080,741	\$17,733,183	\$347,558
Capital Assets, Net	58,134,226	59,984,693	(1,850,467)
Total Assets	<u>76,214,967</u>	<u>77,717,876</u>	<u>(1,502,909)</u>
Liabilities:			
Other Liabilities	8,553,548	8,830,953	(277,405)
Long-Term Liabilities	12,052,586	12,789,137	(736,551)
Total Liabilities	<u>20,606,134</u>	<u>21,620,090</u>	<u>(1,013,956)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	47,147,418	48,531,647	(1,384,229)
Restricted	4,586,368	4,949,656	(363,288)
Unrestricted	3,875,047	2,616,483	1,258,564
Total Net Assets	<u>\$55,608,833</u>	<u>\$56,097,786</u>	<u>(\$488,953)</u>

Capital assets decreased \$1,850,467, due primarily to depreciation exceeding additions. This also resulted in a decrease in invested in capital assets, net of related debt.

Long-Term liabilities decreased as a result of the School District making current year debt payments and paying down the early retirement incentive payable.

Restricted net assets decreased \$363,288. Unrestricted net assets increased \$1,258,564 due mostly to cash increasing as a result of the School District monitoring expenditures closely.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2 shows the changes in net assets for fiscal years 2012 and 2011.

(Table 2)
Changes in Net Assets
Governmental Activities

	2012	2011	Change
Revenues:			
Program Revenues:			
Charges for Services and Sales	\$1,811,821	\$1,828,489	(\$16,668)
Operating Grants, Contributions and Interest	4,848,762	4,097,453	751,309
Capital Grants and Contributions	19,000	300,000	(281,000)
Total Program Revenues	<u>6,679,583</u>	<u>6,225,942</u>	<u>453,641</u>
General Revenues:			
Property Taxes	6,361,033	6,078,794	282,239
Income Taxes	2,327,552	2,277,640	49,912
Grants and Entitlements not Restricted to Specific Programs	12,077,922	12,816,823	(738,901)
Gifts and Donations	13,642	7,351	6,291
Interest	58,897	116,815	(57,918)
Miscellaneous	324,599	630,297	(305,698)
Total General Revenues	<u>21,163,645</u>	<u>21,927,720</u>	<u>(764,075)</u>
Total Revenues	<u>\$27,843,228</u>	<u>\$28,153,662</u>	<u>(\$310,434)</u>
Program Expenses:			
Instruction	15,225,004	16,312,019	(1,087,015)
Support Services:			
Pupils and Instructional Staff	3,127,222	3,358,633	(231,411)
Board of Education, Administration, Fiscal and Business	3,082,260	2,674,027	408,233
Operations and Maintenance of Plant	2,086,340	2,039,440	46,900
Pupil Transportation	1,639,666	1,702,263	(62,597)
Central	118,977	112,387	6,590
Operation of Non-Instructional Services	1,216,030	1,161,925	54,105
Extracurricular Activities	626,461	617,132	9,329
Interest and Fiscal Charges	482,548	543,382	(60,834)
Total Expenses	<u>27,604,508</u>	<u>28,521,208</u>	<u>(916,700)</u>
Special Item - Repayment of interest to the Ohio School Facilities Commission	<u>(727,673)</u>	<u>0</u>	<u>(727,673)</u>
Decrease in Net Assets	(488,953)	(367,546)	(121,407)
Net Assets at Beginning of Year	<u>56,097,786</u>	<u>56,465,332</u>	<u>(367,546)</u>
Net Assets at End of Year	<u>\$55,608,833</u>	<u>\$56,097,786</u>	<u>(\$488,953)</u>

Program revenues, which are primarily represented by tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues, were \$6,679,583 of total revenues for fiscal year 2012 and varied significantly from fiscal year 2011. This was primarily the result of the School District receiving the monies for the Education Jobs Grant and School Improvement grant. Capital grants and contributions decreased simply because the School District did not receive a grant in fiscal year 2012 as it had in fiscal year 2011.

Property taxes increased \$282,239 during fiscal year 2012 due to a revaluation completed in Highland County.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Miscellaneous revenue decreased \$305,698. This was due to refunds related to construction contracts received in 2011 and not in 2012.

The School District remains heavily reliant on State funding. Grants and entitlements not restricted for specific purposes made up \$12,077,922 of revenues for governmental activities of the Hillsboro City School District for fiscal year 2012.

Instruction comprises \$15,225,004 of governmental activities program expenses. Support services expenses make up \$12,379,504 of governmental activities expenses. There were significant decreases in regular instruction and pupils expenditures when compared to fiscal year 2011 as a result of the School District's efforts to continually monitor expenditures. The large increases in fiscal expenditures were a result of the School District making a large sum payment for the early retirement incentive.

The Statement of Activities shows the cost of program services and the charges for services and sales and grants, contributions, and interest offsetting those services. The total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations.

The School District's Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$27,511,201 and expenditures of \$26,658,854. The net change in fund balance for the fiscal year was most significant in the General Fund, an increase of \$459,031. This was due mostly to receiving greater property tax revenues.

The Debt Service Fund saw an increase of \$239,748 during the fiscal year due to not having bond issuance costs as the School District had in fiscal year 2011 and to a decrease in interest and fiscal charges.

General Fund - Budget Highlights

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

During the course of fiscal year 2012 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 14, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

For the General Fund, the original budget basis revenue was \$22,256,357 with a final budget estimate of \$22,136,839. The decrease of \$119,518 was primarily due to an increase in intergovernmental revenues offset by decreases in property and income taxes. Actual revenues were equal to final budget estimates.

Original budget basis appropriations were \$23,215,730 with final budget basis appropriations of \$21,830,820. The variance of \$1,384,910 was due to overall decreases in expenditures. The School District's actual expenditures were \$17,837 below final budget estimates, which was insignificant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the School District had \$58,134,226 invested in capital assets (net of accumulate depreciation), a decrease of \$1,850,467. Additions to capital assets included spot repaving at the tennis court, construction in progress and equipment related to the athletic complex, various educational and maintenance equipment, routine computer and computer related purchases, and a new bus. Disposals for the fiscal year included routine computer and computer related items. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Debt

At June 30, 2012, the School District had outstanding general obligation bonds in the amount of \$10,265,000, for the purpose refunding a portion of the 2001 School Improvement Bonds, retiring the remainder of 2001 School Improvement Bonds, and retiring the 2006 School Improvement Bonds. In November 2001 and May 2006, the School District issued \$10,000,000 and \$3,250,000, respectively, in general obligation bonds for the purpose of construction, improvements, renovations, and additions to classroom facilities and providing equipment, furnishings, and site improvements. The 2001 School Improvement Bonds and 2006 School Improvement Bonds mature December, 2028. In June 2011, the School District issued \$5,830,000 in school improvement bonds for the purpose of refunding a portion of the 2001 School Improvement Bonds. The bonds were issued for an 18 year period with final maturity in December, 2019. The School District also had an outstanding lease-purchase agreement in the amount of \$718,000. For further information regarding the School District's long-term obligations, refer to Note 16 to the basic financial statements.

Hillsboro City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Current Issues

Hillsboro City Schools Board of Education has approved moving forward in fiscal year 2013 with providing the students, as well as the community, with a Track and Soccer Field Facility at the High School/Middle School. The facility will be utilized by all ages of students for curricular and extra-curricular activities.

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 information contact Debbie Lawwell, Treasurer at Hillsboro City School District, 39 Willettsville Pike, Hillsboro, Ohio 45133.

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Hillsboro City School District

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$9,837,098
Inventory Held for Resale	6,062
Materials and Supplies Inventory	1,052
Accrued Interest Receivable	3,117
Accounts Receivable	9,597
Intergovernmental Receivable	567,663
Property Taxes Receivable	6,619,916
Income Taxes Receivable	941,756
Deferred Charges	94,480
Capital Assets:	
Land and Construction in Progress	600,793
Depreciable Capital Assets, Net	<u>57,533,433</u>
<i>Total Assets</i>	<u>76,214,967</u>
<u>Liabilities:</u>	
Accounts Payable	203,388
Accrued Wages and Benefits Payable	1,828,266
Intergovernmental Payable	287,767
Accrued Interest Payable	33,968
Matured Compensated Absences Payable	114,599
Deferred Revenue	5,765,560
Early Retirement Incentive Payable	320,000
Long-Term Liabilities:	
Due Within One Year	637,383
Due In More Than One Year	<u>11,415,203</u>
<i>Total Liabilities</i>	<u>20,606,134</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	47,147,418
Restricted for:	
Debt Service	1,756,272
Capital Projects	878,094
Other Purposes	1,946,897
Library Materials and Service:	
Expendable	105
Nonexpendable	5,000
Unrestricted	<u>3,875,047</u>
<i>Total Net Assets</i>	<u><u>\$55,608,833</u></u>

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$11,893,947	\$1,056,361	\$623,459	\$0	(\$10,214,127)
Special	2,729,009	159,359	2,021,745	0	(547,905)
Vocational	601,495	58,079	140,621	0	(402,795)
Student Intervention Services	553	0	0	0	(553)
Support Services:					
Pupils	829,252	0	33,443	0	(795,809)
Instructional Staff	2,297,970	0	909,096	0	(1,388,874)
Board of Education	86,363	0	0	0	(86,363)
Administration	1,755,464	0	0	0	(1,755,464)
Fiscal	1,238,502	0	0	0	(1,238,502)
Business	1,931	0	0	0	(1,931)
Operation and Maintenance of Plant	2,086,340	23,919	0	0	(2,062,421)
Pupil Transportation	1,639,666	0	105,382	0	(1,534,284)
Central	118,977	0	9,000	0	(109,977)
Operation of Non-Instructional Services:					
Food Service Operations	1,013,175	365,713	923,245	0	275,783
Other	202,855	0	67,722	0	(135,133)
Extracurricular Activities	626,461	148,390	15,049	19,000	(444,022)
Interest and Fiscal Charges	482,548	0	0	0	(482,548)
<i>Total Governmental Activities</i>	\$27,604,508	\$1,811,821	\$4,848,762	\$19,000	(20,924,925)

General Revenues:

Property Taxes Levied for:

General Purposes	5,270,215
Debt Service	981,158
Facility Maintenance	109,660
Income Taxes	2,327,552
Grants and Entitlements not Restricted to Specific Programs	12,077,922
Contributions and Donations	13,642
Investment Earnings	58,897
Miscellaneous	324,599

Total General Revenues **21,163,645**

Special Item - Repayment of interest to the Ohio
Schools Facilities Commission (727,673)

Change in Net Assets (488,953)

Net Assets at Beginning of Year 56,097,786

Net Assets at End of Year **\$55,608,833**

See accompanying notes to the basic financial statements

Hillsboro City School District

Balance Sheet

Governmental Funds

June 30, 2012

	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,465,682	\$1,672,483	\$2,619,910	\$9,758,075
Receivables:				
Property Taxes	5,485,901	1,019,544	114,471	6,619,916
Income Taxes	941,756	0	0	941,756
Accounts	9,597	0	0	9,597
Intergovernmental	18,855	0	548,808	567,663
Accrued Interest	3,117	0	0	3,117
Interfund	58,273	0	0	58,273
Materials and Supplies Inventory	0	0	1,052	1,052
Inventory Held for Resale	0	0	6,062	6,062
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	79,023	0	0	79,023
Advances to Other Funds	15,000	0	0	15,000
<i>Total Assets</i>	<u>\$12,077,204</u>	<u>\$2,692,027</u>	<u>\$3,290,303</u>	<u>\$18,059,534</u>
<u>Liabilities:</u>				
Accounts Payable	\$103,760	\$0	\$99,628	\$203,388
Accrued Wages and Benefits Payable	1,582,342	0	245,924	1,828,266
Intergovernmental Payable	239,681	0	48,086	287,767
Interfund Payable	0	0	58,273	58,273
Matured Compensated Absences Payable	114,599	0	0	114,599
Deferred Revenue	5,456,770	984,860	389,564	6,831,194
Advances from Other Funds	0	0	15,000	15,000
<i>Total Liabilities</i>	<u>7,497,152</u>	<u>984,860</u>	<u>856,475</u>	<u>9,338,487</u>
<u>Fund Balances:</u>				
Nonspendable	15,000	0	6,052	21,052
Restricted	3,071	1,707,167	2,483,725	4,193,963
Committed	675,400	0	0	675,400
Assigned	140,107	0	0	140,107
Unassigned (Deficit)	3,746,474	0	(55,949)	3,690,525
<i>Total Fund Balances</i>	<u>4,580,052</u>	<u>1,707,167</u>	<u>2,433,828</u>	<u>8,721,047</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$12,077,204</u>	<u>\$2,692,027</u>	<u>\$3,290,303</u>	<u>\$18,059,534</u>

See accompanying notes to the basic financial statements

Hillsboro City School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2012

Total Governmental Fund Balances \$8,721,047

***Amounts reported for governmental activities in the
 Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	574,464	
Construction in progress	26,329	
Other capital assets	71,224,183	
Accumulated depreciation	<u>(13,690,750)</u>	
Total capital assets		58,134,226

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Delinquent property taxes	537,813	
Income taxes	151,960	
Intergovernmental	372,947	
Investment earnings	<u>2,914</u>	
		1,065,634

Early retirement incentives payable are not due and payable in the current period and therefore are not reported in the funds. (320,000)

Bond issuance costs reported as an expenditure in governmental funds are allocated as an expense over the life of the debt on a full accrual basis. 94,480

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (33,968)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(10,265,000)	
Premium on debt issuance	(228,656)	
Deferred Gain on Refunding	130,368	
Accretion on capital appreciation bonds	(42,870)	
Capital leases	(718,000)	
Compensated absences	<u>(928,428)</u>	
Total liabilities		<u>(12,052,586)</u>

Net Assets of Governmental Activities \$55,608,833

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$5,237,557	\$975,624	\$108,989	\$6,322,170
Income Taxes	2,314,717	0	0	2,314,717
Intergovernmental	12,900,673	142,006	3,590,351	16,633,030
Investment Earnings	53,950	3,279	1,643	58,872
Tuition and Fees	1,272,137	0	0	1,272,137
Extracurricular Activities	43,482	0	104,908	148,390
Rentals	23,919	0	0	23,919
Customer Sales and Service	1,662	0	365,713	367,375
Contributions and Donations	13,642	0	32,350	45,992
Miscellaneous	292,482	0	32,117	324,599
Total Revenues	22,154,221	1,120,909	4,236,071	27,511,201
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	10,385,228	0	335,117	10,720,345
Special	1,480,145	0	1,181,576	2,661,721
Vocational	638,886	0	0	638,886
Student Intervention Services	553	0	8,995	9,548
Support Services:				
Pupils	890,394	0	30,486	920,880
Instructional Staff	1,445,951	0	876,141	2,322,092
Board of Education	26,485	0	2,297	28,782
Administration	1,684,796	0	79,263	1,764,059
Fiscal	1,206,890	36,268	3,836	1,246,994
Business	1,382	0	549	1,931
Operation and Maintenance of Plant	1,620,228	0	271,709	1,891,937
Pupil Transportation	1,661,065	0	66,202	1,727,267
Central	109,296	0	9,000	118,296
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,013,175	1,013,175
Other	19,975	0	95,949	115,924
Extracurricular Activities	399,969	0	175,956	575,925
Debt Service:				
Principal Retirement	0	466,000	0	466,000
Interest and Fiscal Charges	0	435,092	0	435,092
Total Expenditures	21,571,243	937,360	4,150,251	26,658,854
Excess of Revenues Over Expenditures	582,978	183,549	85,820	852,347
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Capital Assets	25,701	0	0	25,701
Transfers In	0	56,199	684,822	741,021
Transfers Out	(149,648)	0	(591,373)	(741,021)
Total Other Financing Sources (Uses)	(123,947)	56,199	93,449	25,701
Special Item - Repayment of Interest to Ohio School Facilities Commission	0	0	(727,673)	(727,673)
Net Change in Fund Balances	459,031	239,748	(548,404)	150,375
Fund Balances at Beginning of Year	4,121,021	1,467,419	2,982,232	8,570,672
Fund Balances at End of Year	\$4,580,052	\$1,707,167	\$2,433,828	\$8,721,047

See accompanying notes to the basic financial statements

Hillsboro City School District
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, 2012

Net Change in Fund Balances - Total Governmental Funds \$150,375

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital assets additions	415,448	
Depreciation expense	(2,221,473)	
Excess of capital outlay under depreciation expense		(1,806,025)

Governmental funds report only the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each sale.

Proceeds from sale of capital assets	(25,701)	
Loss on disposal of capital assets	(18,741)	
		(44,442)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	38,863	
Income taxes	12,835	
Intergovernmental	277,415	
Investment earnings	2,914	
		332,027

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current fiscal year, these amounts consist of:

Bond payments	445,000	
Capital lease payments	21,000	
		466,000

Governmental funds report premiums and bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Amortization of bond issuance costs	(5,905)	
Amortization of bond premium	14,291	
Amortization of gain on refunding	(8,148)	
Accretion on capital appreciation bonds	(39,661)	
		(39,423)

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences payable	(15,931)	
Increase in accrued interest payable	(8,033)	
Decrease in early retirement incentive payable	476,499	
Total (increase)/decrease		452,535

Change in Net Assets of Governmental Activities (\$488,953)

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$5,720,211	\$5,200,660	\$5,200,660	\$0
Income Taxes	2,619,923	2,381,963	2,381,963	0
Intergovernmental	12,356,447	12,922,932	12,922,932	0
Investment Earnings	48,284	50,498	50,498	0
Tuition and Fees	1,216,471	1,272,240	1,272,240	0
Extracurricular Activities	41,576	43,482	43,482	0
Rentals	22,870	23,919	23,919	0
Customer Sales and Service	1,589	1,662	1,662	0
Contributions and Donations	13,044	13,642	13,642	0
Miscellaneous	215,941	225,841	225,894	53
Total Revenues	22,256,357	22,136,839	22,136,892	53
Expenditures:				
Current:				
Instruction:				
Regular	11,134,588	10,470,365	10,470,365	0
Special	1,583,289	1,488,840	1,486,437	2,403
Vocational	668,620	628,734	628,734	0
Student Intervention Services	539	507	507	0
Support Services:				
Pupils	1,006,494	946,453	940,897	5,556
Instructional Staff	1,560,569	1,467,475	1,455,600	11,875
Board of Education	28,633	26,925	26,925	0
Administration	1,789,819	1,683,049	1,683,049	0
Fiscal	1,283,497	1,206,931	1,206,931	0
Business	1,470	1,382	1,382	0
Operation and Maintenance of Plant	1,764,608	1,659,342	1,661,339	(1,997)
Pupil Transportation	1,782,367	1,676,042	1,676,042	0
Central	116,208	109,276	109,276	0
Operation of Non-Instructional Services:				
Community Services	21,242	19,975	19,975	0
Extracurricular Activities	464,335	436,636	436,636	0
Capital Outlay	9,452	8,888	8,888	0
Total Expenditures	23,215,730	21,830,820	21,812,983	17,837
Excess of Revenues Over (Under) Expenditures	(959,373)	306,019	323,909	17,890
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	0	28,382	28,382	0
Refund of Prior Year Expenditures	0	68,743	68,743	0
Transfers Out	0	(56,199)	(56,199)	0
Advances Out	0	(58,273)	(58,273)	0
Total Other Financing Sources (Uses)	0	(17,347)	(17,347)	0
Net Change in Fund Balance	(959,373)	288,672	306,562	17,890
Fund Balance at Beginning of Year	4,890,060	4,890,060	4,890,060	0
Prior Year Encumbrances Appropriated	176,322	176,322	176,322	0
Fund Balance at End of Year	\$4,107,009	\$5,355,054	\$5,372,944	\$17,890

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$15,598	\$64,065
<u>Liabilities:</u>		
Undistributed Monies	0	\$64,065
<u>Net Assets:</u>		
Held in Trust for Scholarships	\$15,598	

See accompanying notes to the basic financial statements

Hillsboro City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2012

	Private Purpose Trust Donald L Irvin Scholarship Fund
<u>Additions:</u>	
Contributions and Donations	\$2,000
<u>Deductions:</u>	0
<i>Change in Net Assets</i>	2,000
<i>Net Assets at Beginning of Year</i>	13,598
<i>Net Assets at End of Year</i>	\$15,598

See accompanying notes to the basic financial statements

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Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Hillsboro City School District (the School District) operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3307.7 and Section 119.01 of the Ohio Revised Code.

The School District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by State and/or federal agencies. This Board controls the School District's instructional and support facilities staffed by 111 non-certified personnel and 199 certified teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the School District's ADM is 2,676. It currently operates one elementary building housing grades K-5, and one Middle School/Senior High building housing grades 6-12. The Administrative Office is located at 39 Willettsville Pike, Hillsboro, Ohio.

Reporting Entity

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

Parochial Schools – Within the School District boundaries, St. Mary Catholic School and Highland County Christian Academy are operated as private schools. Current State legislation provides funding to these parochial schools. Monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected in a special revenue fund and as part of governmental activities 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 is associated with Miami Valley Educational Computer Association, which is defined as jointly governed organization. This organization is presented in Note 19 of the basic financial statements.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hillsboro City 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.

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 statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. 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 are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District fall within two categories: governmental and fiduciary.

Governmental Funds

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

General Fund - The General Fund is the operating fund of the School District and is used to account for and report all financial resources not accounted for and reported in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - The Debt Service Fund accounts for and reports the accumulation of resources for, and the payment of, general obligation bond principal and interest and certain other long-term obligations when the School District is obligated for the payment.

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fiduciary Funds

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are a private purpose trust fund and an agency fund. The private purpose trust fund accounts for college scholarship programs for students. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (e.g. revenues) and decreases (e.g. 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 activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 and the financial statements of the fiduciary funds are prepared using 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. “Measurable” means the amount of the transaction can be determined and “available” means that the resources are collectible 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.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: accrued interest, property taxes available for advance, income taxes, and grants.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 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 the governmental funds.

Cash and Cash Equivalents

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

During fiscal year 2012, the School District's investments were limited to Federal National Mortgage Association Notes and negotiable certificates of deposit.

Investments are reported at fair value which is based on quoted market prices.

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 2012 amounted to \$53,950, which includes \$24,427 assigned from other School District funds.

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventory

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

Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets usually 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.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement costs back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$2,000. 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 capitalized.

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	20 - 40 years
Buildings and Improvements	20 - 40 years
Furniture, Fixtures and Equipment	3 - 15 years
Vehicles	8 - 15 years
Textbooks	7 years

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interfund Balances

On fund financial statements, long-term interfund loan receivables are reported as “Advances to Other Funds” or “Advances from Other Funds” and are classified as nonspendable fund balance which indicates that they are not in spendable form even though it is a component of net current assets. These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

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. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is an estimate based on the School District’s past experience of making termination payments.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from the proprietary fund are reported on the fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and early retirement incentives 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 in the current fiscal year. Bonds and capital leases that will be paid from governmental funds are recognized as an expenditure and liability on the governmental fund financial statements when due.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 activities for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

Internal Activity

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

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

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Bond Premiums/Issuance Costs/Interest on Capital Appreciation Bonds/Accounting Gain/Loss on Refunded Bonds

In the government-wide financial statements, bond premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. The liability for capital appreciation bonds is increased each year for the compounded interest accrued during the fiscal year. Bond premiums and the compounded interest on the capital appreciation bonds are presented as an addition to the face amount of the bonds payable, whereas issuance costs are reported as deferred charges.

On the government-wide financial statements, an advance refunding resulting in the defeasance of debt generates an accounting gain or loss calculated by comparing the reacquisition price and the net carrying amount of the old debt. This accounting gain/loss is amortized as interest expense over the remaining useful life of the old debt or the life of the new debt, whichever is shorter, and is presented as an increase/reduction of the face amount of the new debt.

On the governmental fund financial statements, bond premiums and issuance costs are recognized in the period when the debt is issued. Interest on capital appreciation bonds is recorded as an expenditure when the debt becomes due.

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore, does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element prevents one classification from being overstated while another is understated by the same amount.

Operating Revenues And Expenses

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Budgetary Process

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, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

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 statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed.

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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year, including all supplemental appropriations.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Committed

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education.

Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Special Item

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. During fiscal year 2012, the School District repaid interest to the Ohio School Facilities Commission. This amount is recorded as a special item.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 3 - FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Debt Service	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>				
Long-Term Advances	\$15,000	\$0	\$0	\$15,000
Inventory	0	0	1,052	1,052
Library Materials	0	0	5,000	5,000
<i>Total Nonspendable</i>	15,000	0	6,052	21,052
<i>Restricted for</i>				
Debt Service	0	1,707,167	0	1,707,167
Food Service Operations	0	0	453,230	453,230
Miscellaneous Grants	0	0	51,914	51,914
Set Asides	3,071	0	0	3,071
Library Services	0	0	105	105
Capital Projects	0	0	878,094	878,094
Capital Maintenance	0	0	1,100,382	1,100,382
<i>Total Restricted</i>	3,071	1,707,167	2,483,725	4,193,963
<i>Committed to</i>				
Other Purposes	675,400	0	0	675,400
<i>Assigned to</i>				
Purchases on Order	140,107	0	0	140,107
Other Purposes	0	0	0	0
<i>Total Assigned</i>	140,107	0	0	140,107
<i>Unassigned (Deficit)</i>	3,746,474	0	(55,949)	3,690,525
<i>Total Fund Balances</i>	\$4,580,052	\$1,707,167	\$2,433,828	\$8,721,047

NOTE 4 - ACCOUNTABILITY

At June 30, 2012, the Athletic, Alternative School, Education Jobs Grant, Title I, and Title II-A funds had negative fund balances of \$8,368, \$2,747, \$24,028, \$8,989, and \$11,817, respectively. The deficits in these funds were created by the recognition of accrued liabilities. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 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 that:

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 restricted, committed or assigned fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

Net Change in Fund Balance	
GAAP Basis	\$459,031
Adjustments:	
Revenue Accruals	52,831
Expenditure Accruals	(73,705)
Encumbrances	(168,035)
Advances	(58,273)
Transfers	93,449
Decrease in Fair Market	
Value of Investments - 2011	(2,462)
Increase in Fair Market	
Value of Investments - 2012	3,726
Budget Basis	\$306,562

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
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) above;
7. The State Treasurer's investment pool (STAROhio); and

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS *(continued)*

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.

Cash on Hand

At fiscal year end, the School District had \$2,600 in undeposited cash on hand which is included on the Statement of Net Assets and governmental balance sheet of the School District as part of “Equity in Pooled Cash and Investments”.

Investments

As of June 30, 2012, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Percent of Total Investments</u>
Federal National Mortgage Association Notes	\$275,537	Less than four years	13.25%
Negotiable Certificates of Deposit	225,901	Less than two years	10.86%
Negotiable Certificates of Deposit	1,503,355	Less than four years	72.28%
Negotiable Certificates of Deposit	75,000	Less than five years	
Total Investments	<u>\$2,079,793</u>		

Interest Rate Risk

The School District has no investment policy beyond State statute that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk

The negotiable certificates of deposit are in denominations of under \$250,000 each, in separate banks, and are insured by the Federal Deposit Insurance Corporation (FDIC). The negotiable certificates of deposit are, therefore, not subject to credit risk. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 and public utility property (used in business) located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in calendar year 2012 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Highland County. The Highland County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real and public utility property taxes which are measurable as of June 30, 2012, 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.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 7 - PROPERTY TAXES (Continued)

The amount available as an advance at June 30, 2012, was \$184,005 in the General Fund, \$34,684 in the Debt Service Fund, and \$3,872 in the All Other Governmental Funds. The amount available as an advance at June 30, 2011, was \$147,108 in the General Fund, \$28,061 in the Debt Service Fund, and \$3,060 in the All Other Governmental Funds.

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

The School District's assessed values upon which fiscal year 2012 taxes were collected are:

	2011 Second - Half Collections		2012 First - Half Collections	
	Amount	Percentage	Amount	Percentage
Agricultural/Residential and Other Real Estate	\$276,352,410	95.64%	\$276,147,020	95.34%
Public Utility Personal	12,587,260	4.36%	13,499,200	4.66%
Total Assessed Value	<u>\$288,939,670</u>	<u>100.00%</u>	<u>\$289,646,220</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$30.85		\$30.85	

NOTE 8 - INCOME TAX

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance at 6/30/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/12</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$574,464	\$0	\$0	\$574,464
Construction in Progress	26,329	0	0	26,329
Total Capital Assets Not Being Depreciated	<u>600,793</u>	<u>0</u>	<u>0</u>	<u>600,793</u>
Capital Assets Being Depreciated:				
Land Improvements	2,618,891	0	0	2,618,891
Buildings and Improvements	62,270,628	2,650	0	62,273,278
Furniture, Fixtures and Equipment	3,132,040	175,732	(184,873)	3,122,899
Vehicles	2,096,825	237,066	(120,899)	2,212,992
Textbooks	996,123	0	0	996,123
Totals Capital Assets Being Depreciated	<u>71,114,507</u>	<u>415,448</u>	<u>(305,772)</u>	<u>71,224,183</u>
Less Accumulated Depreciation:				
Land Improvements	(983,032)	(140,740)	0	(1,123,772)
Building and Improvements	(7,123,354)	(1,560,120)	0	(8,683,474)
Furniture, Fixtures and Equipment	(1,262,711)	(334,652)	140,431	(1,456,932)
Vehicles	(1,397,806)	(153,543)	120,899	(1,430,450)
Textbooks	(963,704)	(32,418)	0	(996,122)
Total Accumulated Depreciation	<u>(11,730,607)</u>	<u>(2,221,473) *</u>	<u>261,330</u>	<u>(13,690,750)</u>
Total Capital Assets Being Depreciated, Net	<u>59,383,900</u>	<u>(1,806,025)</u>	<u>(44,442)</u>	<u>57,533,433</u>
Governmental Activities Capital Assets, Net	<u>\$59,984,693</u>	<u>(\$1,806,025)</u>	<u>(\$44,442)</u>	<u>\$58,134,226</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,531,033
Special	60,146
Vocational	14,867
Support Services:	
Instructional Staff	11,303
Administration	78,936
Fiscal	701
Operation and Maintenance of Plant	243,637
Pupil Transportation	170,451
Operation of Non-Instructional Services - Food Service Operations	58,786
Extracurricular Activities	51,613
Total Depreciation Expense	<u>\$2,221,473</u>

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 10 - RECEIVABLES

Receivables at June 30, 2012, consisted of accounts (student fees), interest, intergovernmental grants, property taxes, income taxes, and interfund. All receivables, except for delinquent property taxes, are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. Intergovernmental receivables consist of the following:

	<u>Amounts</u>
<u>Governmental Activities:</u>	
Alternative Education Grant	\$2,663
Education Jobs Grant	62,511
Idea - B Grant	93,982
School Improvement Grant	133,630
Title I Grant	179,359
Title II - A Grant	46,008
Title VI - B Grant	30,655
SERS Receivable	<u>18,855</u>
Total Intergovernmental Receivables	<u><u>\$567,663</u></u>

NOTE 11 - RISK MANAGEMENT

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of; damage to or destruction of assets; errors and omissions; employee injuries; and natural disasters. The School District addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers.

General Liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 for automobile liability. The School District also has umbrella liability coverage with a limit of \$5,000,000. There has been no significant change in coverage from the prior fiscal year. Settled claims have not exceeded coverage in any of the past three years.

In addition, the School District maintains replacement cost insurance on buildings and contents in the blanket amount of \$74,390,345. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The School District pays all appointed officials' bonds by statute.

NOTE 11 - RISK MANAGEMENT *(continued)*

Employee Medical Benefits

Medical/surgical insurance is offered to employees through United Healthcare. Dental insurance is provided by Delta Dental and Vision coverage is provided through the Vision Service Plan.

The School District provides life insurance to employees through United Healthcare.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$402,279, \$287,851 and \$254,682, respectively. The full amount has been contributed for fiscal years 2012, 2011, and 2010.

State Teachers Retirement System of Ohio

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can 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.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 12 - DEFINED BENEFIT PENSION PLANS *(continued)*

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 multiplied by 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 DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010, were \$1,279,824, \$1,381,163, and \$1,358,318, respectively. For fiscal year 2012, 87.48 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2012 were \$7,296 made by the School District and \$5,212 made by the plan members. In addition, member contributions of \$13,811 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan, with \$19,335 contributed by the School District.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 12 - DEFINED BENEFIT PENSION PLANS *(continued)*

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 Employees Retirement System. As of June 30, 2012, one member of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 13 - POST-EMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administrated 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, Medicare Advantage, 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 obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, 0.55 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 fiscal year 2012, this amount was \$35,800. During fiscal year 2012, the School District paid \$45,971 in surcharge.

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, 2012, 2011, and 2010, were \$63,393, \$83,601, and \$71,425, respectively. The full amount has been contributed for fiscal years 2012, 2011, and 2010.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 13 - POST-EMPLOYMENT BENEFITS *(continued)*

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2011, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$23,757, \$18,524, and \$15,145, respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 2010.

State Teachers Retirement System

Plan Description – The School District participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$98,448, \$106,243, and \$104,486, respectively. For fiscal year 2012, 87.48 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

NOTE 14 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. The classified employees working 12 months of the year earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 245 days for teachers and 248 days for administrators and classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum payment of 52 days for teachers and 54 days for administrators and classified employees.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 14 - EMPLOYEE BENEFITS (continued)

Early Retirement Incentive

In fiscal year 2011, the School District offered a one-time early retirement incentive package for employees who were eligible to retire and employees who would be at the 30 and 35 year mark during fiscal year 2012. Teachers and administrators electing the incentive received \$40,000, plus severance. Classified staff electing the incentive received 100 percent of his/her fiscal year 2011 base salary, not to exceed \$20,000, plus severance pay. Twenty-three employees elected to accept the retirement incentive package. As of June 30, 2012, \$320,000 in early retirement incentives payable was outstanding.

NOTE 15 - CAPITALIZED LEASES – LESSEE DISCLOSURE

In previous fiscal years, the School District had entered into lease purchase agreements for a new bus garage and for the construction of a gymnasium. The School District is leasing the projects from Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the projects during the lease term. Columbus Regional Airport Authority assigned U.S. Bank as trustee. U.S. Bank deposited \$205,000 and \$613,000, respectively, in the School District’s name for the construction of the project. Amounts were paid to contractors by the School District as the work progressed. The School District then submitted invoices to the agent for reimbursement. The School District makes semi-annual lease payments to U.S. Bank. The interest rate is fixed at 4.17 percent plus an annual administrative fee on both leases. The leases are renewable annually and expire in fiscal year 2032. The intention of the School District is to renew the leases annually.

The leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13 “ Accounting for Leases”, which defines a capital lease generally as one that transfers benefits and risks of ownership to the leasee.

Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments totaled \$21,000 during fiscal year 2012.

The assets acquired through capital leases are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Asset:			
Buildings and Improvements	\$818,000	\$69,300	\$748,700

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 15 - CAPITALIZED LEASES – LESSEE DISCLOSURE *(continued)*

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of fiscal year-end.

Fiscal Year Ending June 30,	Total Payments
2013	\$55,722
2014	55,634
2015	55,500
2016	56,296
2017	55,044
2018-2022	273,963
2023-2027	274,641
2028-2032	270,932
Total Minimum Lease Payments	1,097,732
Less Amount Representing Interest and Fees	(379,732)
Present Value of Minimum Lease Payments	\$718,000

NOTE 16 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2012 were as follows:

	Amount Outstanding 6/30/11	Additions	Deductions	Amount Outstanding 6/30/12	Amounts Due in One Year
<i><u>Governmental Activities:</u></i>					
General Obligation Bonds:					
School Improvements - 2001 3.25%	\$2,060,000	\$0	\$285,000	\$1,775,000	\$0
School Improvements - 2006 2.85%	2,820,000	0	105,000	2,715,000	110,000
School Improvements Refunding -					
2011 3.5%-4.15%	5,395,000	0	55,000	5,340,000	355,000
Capital Appreciation Bonds 3.62%-3.86%	435,000	0	0	435,000	0
Premium on Refunding Bonds	242,947	0	14,291	228,656	0
Deferred Gain on Refunding	(138,516)	0	(8,148)	(130,368)	0
Accretion on Capital Appreciation Bonds	3,209	39,661	0	42,870	0
Total General Obligation Bonds	10,817,640	39,661	451,143	10,406,158	465,000
Capital Leases	739,000	0	21,000	718,000	23,000
Early Retirement Incentive	320,000	0	320,000	0	0
Compensated Absences	912,497	236,507	220,576	928,428	149,383
Total Governmental Activities	\$12,789,137	\$276,168	\$1,012,719	\$12,052,586	\$637,383
Long-Term Liabilities	\$12,789,137	\$276,168	\$1,012,719	\$12,052,586	\$637,383

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 16 - LONG-TERM OBLIGATIONS *(continued)*

School Improvement Bonds 2001

On November 15, 2001, the School District issued \$10,000,000 in general obligation bonds for the purpose of construction, improvements, renovations, and additions to classroom facilities and providing equipment, furnishings, and site improvements. These bonds are being paid from property tax revenues. The bonds were issued for a 27 year period, with final maturity in December, 2028. The bonds will be retired from the Debt Service Fund.

The Bonds maturing on December 1, 2015, and December 1, 2028, 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 in the respective principal amounts as follows:

<u>Redemption Date</u> <u>(December 1)</u>	<u>Principal Amount Subject</u> <u>to Mandatory Redemption</u>
2014	\$320,000
2024	530,000
2025	555,000
2026	585,000
2027	610,000

Unless previously redeemed, the remaining principal amounts of \$335,000 and \$640,000 will mature at stated maturity (December 1, 2015 and December 1, 2028, respectively).

The bonds maturing on or after December 1, 2012, excluding the term bond maturing December 1, 2015, and the serial bonds maturing December 1, 2016, through and including December 1, 2018, which are not callable, are subject to optional redemption, in whole or in part on any date at the option of the issuer on or after December 1, 2011, at par.

On May 23, 2006, the School District issued \$3,250,000 in general obligation bonds for the purpose of construction, improvements, renovations, and additions to classroom facilities and providing equipment, furnishings and site improvements. These bonds are being paid from property tax revenues. The bonds were issued for a 23 year period, with final maturity in December, 2028. The bonds will be retired from the Debt Service Fund.

The term bonds in the following table are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur at an amount which is 100 percent of the principal amount thereof plus accrued interest to the date of redemption. Unless otherwise called for redemption, the remaining principal amount of the bonds due December 1, 2018, 2020, 2022, 2024, 2026, and 2028, are to be paid at stated maturity.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 16 - LONG-TERM OBLIGATIONS *(continued)*

<u>Redemption Date</u> (December 1)	<u>Principal Amount Subject</u> <u>to Mandatory Redemption</u>
2016	\$130,000
2017	135,000
2019	150,000
2021	160,000
2023	180,000
2025	195,000
2027	215,000

The bonds maturing on and after December 1, 2016, are subject to optional redemption, in whole or in part on any date at the option of the issuer on or after June 1, 2016, at a price of par, which is 100 percent of the face value of the bonds.

In June 2011, the School District issued \$5,830,000 in school improvement refunding bonds for the purpose of advance refunding a portion of the 2001 School Improvement Bonds. \$5,395,000 were serial bonds and \$435,000 were capital appreciation bonds. The bonds were issued for an 18 year period, with final maturity in December, 2019. The bonds were issued at a premium of \$243,468 and had related issuance costs of \$100,602. Both amounts will be amortized over the 18 year life of the bonds.

The School District defeased the 2001 School Improvement Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments due on the old bonds. Accordingly, the trust assets and the liability of the defeased bonds are not included in the School District's financial statements.

The refunding resulted in a difference of \$138,816 between the net carrying amount of the debt and the acquisition price. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense over the life of the bonds using the straight-line method. The School District's total debt service payments decreased by \$491,194 as a result of the advance refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$344,330.

The capital appreciation bonds will mature in fiscal years 2021 and 2022. The maturity amount of the capital appreciation bonds will be \$940,000. For fiscal year 2012, the capital appreciation bonds were accreted \$39,661.

The general obligation bonds will be paid from property tax revenues received in the Debt Service Fund. Capital leases will be paid from the Debt Service Fund and compensated absences will be paid from the General Fund. There is \$320,000 of termination benefits payable presented as early retirement incentive payable on the Statement of Net Assets rather than as a long term liability.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 16 - LONG-TERM OBLIGATIONS *(continued)*

The School District's overall legal debt margin was \$17,510,327, with an unvoted debt margin of \$289,646 at June 30, 2012.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2012, are as follows:

School Improvement Bonds					
Fiscal Year			Capital	Capital	
Ending	Serial Bonds	Serial Bonds	Appreciation	Appreciation	
June 30,	Principal	Interest	Principal	Interest	Total
2013	\$465,000	\$403,639	\$0	\$0	\$868,639
2014	480,000	394,626	0	0	874,626
2015	505,000	379,179	0	0	884,179
2016	525,000	357,758	0	0	882,758
2017	545,000	332,585	0	0	877,585
2018-2022	2,555,000	1,804,861	435,000	505,000	5,299,861
2023-2027	3,555,000	731,248	0	0	4,286,248
2028-2029	1,635,000	71,104	0	0	1,706,104
Total	<u>\$10,265,000</u>	<u>\$4,475,000</u>	<u>\$435,000</u>	<u>\$505,000</u>	<u>\$15,680,000</u>

NOTE 17 - INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the fiscal year ended June 30, 2012, were as follows:

Transfer From	Transfer To		
	Debt Service	All Other Governmental Funds	Total
General Fund	\$56,199	\$93,449	\$149,648
All Other Governmental Funds	0	591,373	591,373
Total	<u>\$56,199</u>	<u>\$684,822</u>	<u>\$741,021</u>

Transfers were made from the General Fund to move unrestricted balances to support programs and projects accounted for in other funds.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 17 - INTERFUND ACTIVITY *(continued)*

Interfund Receivables/Payables

As of June 30, 2012, receivables and payables that resulted in various interfund transactions were as follows:

		Receivable
		General Fund
Payable	All Other Governmental Funds	\$58,273

The amounts due to the General Fund are the result of the School District moving unrestricted balances to support programs and projects accounted for in the other funds. The General Fund will be reimbursed when funds become available.

Advances To/From Other Funds

As of June 30, 2012, receivables and payables that resulted from various long-term advances were as follows:

		Advances From
		General Fund
Advances To	All Other Governmental Funds	\$15,000

The advance from the General Fund to All Other Governmental Funds was made to support programs related to extracurricular activities. The General Fund will be reimbursed when the monies are received or when balances become available.

NOTE 18 - SET-ASIDE CALCULATIONS

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

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 18 - SET-ASIDE CALCULATIONS *(continued)*

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

	Capital Acquisition
Set-aside Balance as of June 30, 2011	\$0
Current Fiscal Year Set-aside Requirement	451,687
Prior Year Offset from Bond Proceeds	(186,632)
Current Fiscal Year Qualifying Expenditures	(261,984)
Set-aside Balance as of June 30, 2012	\$3,071
Set-aside Balance Carried Forward to Future Fiscal Years	\$0

In previous fiscal years, the School District was required to have a textbook set-aside requirement. Effective July 1, 2011, House Bill 30 of the 129th General Assembly repealed the textbook requirement.

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

Miami Valley Educational Computer Association

The School District is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, and Highland Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts, except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$117,289 for services provided during fiscal year 2012. Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Hillsboro City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 20 - CONTINGENCIES

Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

Litigation

The School District is not party to any legal proceeding.

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Pass Through Entity	Federal CFDA	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Program Title	Number	Number	Receipts	Receipts	Disbursements	Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
National School Breakfast Program	3L70	10.553	\$181,906		\$181,906	
National School Lunch Program	3L60	10.555	659,057	62,668	659,057	62,668
Special Milk Program	3L60	10.556	440		440	
Total Nutrition Cluster			<u>841,403</u>	<u>62,668</u>	<u>841,403</u>	<u>62,668</u>
Total U.S. Department of Agriculture			<u>841,403</u>	<u>62,668</u>	<u>841,403</u>	<u>62,668</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Special Education Cluster:						
IDEA Part B	3M20	84.027	520,795		521,712	
IDEA Part B - Stimulus	3DJ0	84.391	21,660		22,597	
Early Childhood	3C50	84.173	5,031		5,031	
Total Special Education Cluster			<u>547,486</u>		<u>549,340</u>	
Title I Cluster:						
ESEA Title I	3M00	84.010	972,014		916,193	
ESEA Title I School Improvement	3M00	84.010	107,571		163,197	
ESEA Title I - Stimulus	3DK0	84.389	41,536		47,568	
Total Title I Cluster			<u>1,121,121</u>		<u>1,126,958</u>	
Title II-D Technology						
Improving Teacher Quality	3Y60	84.367	174,257		162,774	
Ed Jobs	3ET0	84.410	450,995		460,131	
Education for Homeless Children and Youth - Stimulus	3DG0	84.387			9	
Rural and Low Income	3Y80	84.358	37,529		41,470	
Limited English Proficiency	3Y70	84.365	666		570	
<i>Passed through Great Oaks Institute of Technology and Career Development</i>						
Vocational Education Basic Grants to States Career Education	2012	84.048	<u>6,450</u>		<u>6,971</u>	
Total U.S. Department of Education			<u>2,344,957</u>		<u>2,353,375</u>	
NATIONAL ENDOWMENT OF THE ARTS						
<i>Passed Through State Library of Ohio</i>						
State Library Grant	VIII-3-12	45.310	<u>9,937</u>		<u>3,050</u>	
Total National Endowment of the Arts			<u>9,937</u>		<u>3,050</u>	
Total			<u><u>\$3,196,297</u></u>	<u><u>\$62,668</u></u>	<u><u>\$3,197,828</u></u>	<u><u>\$62,668</u></u>

The accompanying notes are an integral part of this schedule.

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Hillsboro City School District's (the 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 District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

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



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*

Hillsboro City School District
Highland County
39 Willettsville Pike
Hillsboro, Ohio 45133

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 15, 2013.

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

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

Dave Yost
Auditor of State

February 15, 2013



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

Hillsboro City School District
Highland County
39 Willettsville Pike
Hillsboro, Ohio 45133

To the Board of Education:

Compliance

We have audited the compliance of Hillsboro City School District, Highland County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Hillsboro City School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed 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*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Hillsboro City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

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

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

Dave Yost
Auditor of State

February 15, 2013

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster: National School Breakfast CFDA 10.553; National School Lunch CFDA 10.555; Special Milk Program CFDA 10.556 Title I Cluster: Title I CFDA 84.010; Title I ARRA CFDA 84.389 Ed Jobs CFDA 84.410
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Assets not capitalized and represented on capital asset records.	Yes	
2011-02	Nutrition Cluster not included on Schedule of Federal Awards Receipts and Expenditures.	Yes	
2011-03	SFSF funds not spent timely.	Yes	

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Dave Yost • Auditor of State

HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND 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 5, 2013