



Dave Yost · Auditor of State

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland 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, the major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland County, Ohio, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the District was declared to be in a state of "Fiscal Caution" by the Ohio Department of Education on June 14, 2012. Management's plans regarding these matters have not yet been finalized. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012, 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.

Hillsdale Local School District
Ashland County
Independent Accountants' Report
Page 2

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 Expenditures 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

December 7, 2012

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net assets of governmental activities decreased \$1,101,679 which represents a 30.78% decrease from 2011.
- General revenues accounted for \$7,879,414 in revenue or 80.19% of all revenues. Program specific revenues, in the form of charges for services and sales, grants and contributions accounted for \$1,946,573 or 19.81% of total revenues of \$9,825,987.
- The District had \$10,927,666 in expenses related to governmental activities; only \$1,946,573 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,879,414 were not adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$8,385,847 in revenues and \$9,473,082 in expenditures and other financing uses. During fiscal year 2012, the general fund's fund balance decreased \$1,087,235 from a balance of \$1,534,529 to \$447,294.

Using the Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets and the statement of activities answer this question. These statements include *all (non-fiduciary) assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

Governmental Funds

Most of the 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 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 financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for employee benefits self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-51 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2012 and 2011.

	Net Assets	
	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Assets</u>		
Current and other assets	\$ 6,690,869	\$ 7,414,647
Capital assets, net	<u>1,993,530</u>	<u>1,802,766</u>
Total assets	<u>8,684,399</u>	<u>9,217,413</u>
<u>Liabilities</u>		
Current liabilities	5,077,384	4,208,376
Long-term liabilities	<u>1,129,605</u>	<u>1,429,948</u>
Total liabilities	<u>6,206,989</u>	<u>5,638,324</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,823,680	1,697,416
Restricted	183,391	355,519
Unrestricted	<u>470,339</u>	<u>1,526,154</u>
Total net assets	<u>\$ 2,477,410</u>	<u>\$ 3,579,089</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$2,477,410.

At year-end, capital assets represented 22.96% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$1,823,680. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

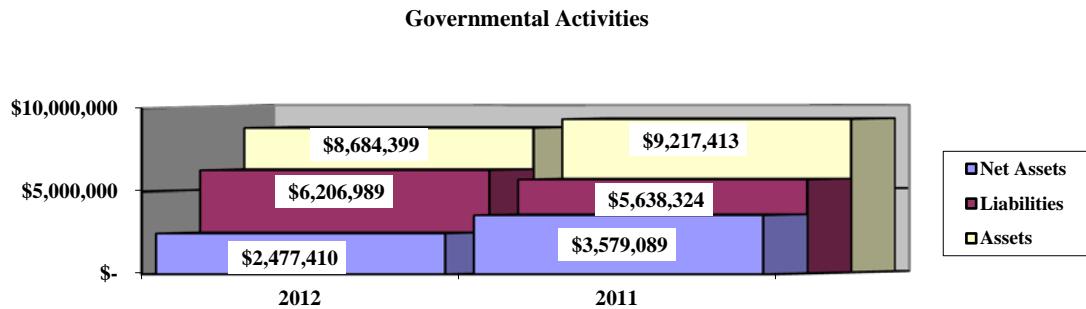
Current liabilities increased 20.65% during the fiscal year primarily as a result of an increase in unearned revenue accruals from taxes receivable.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

A portion of the District's net assets, \$183,391, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$470,339 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below reports the District's governmental activities assets, liabilities and net assets at June 30, 2012 and 2011.



The table below shows the change in net assets for fiscal year 2012 and 2011.

Change in Net Assets		
	Governmental Activities 2012	Governmental Activities 2011
Revenues		
Program revenues:		
Charges for services and sales	\$ 789,940	\$ 817,185
Operating grants and contributions	1,132,636	1,307,180
Capital grants and contributions	23,997	-
General revenues:		
Property taxes	3,773,716	4,242,055
Grants and entitlements	3,990,398	4,244,287
Investment earnings	22,528	34,117
Other	92,772	140,342
Total revenues	<u>9,825,987</u>	<u>10,785,166</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

	Change in Net Assets	
	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
Expenses		
Program expenses:		
Instruction:		
Regular	\$ 4,937,623	\$ 4,929,008
Special	748,882	661,732
Vocational	318,314	432,023
Other	272,026	232,794
Support services:		
Pupil	640,483	619,247
Instructional staff	417,529	401,061
Board of education	31,997	37,951
Administration	891,028	876,786
Fiscal	360,831	331,708
Operations and maintenance	591,299	679,232
Pupil transportation	934,476	854,943
Central	5,400	6,825
Operation of non-instructional services:		
Food service operations	388,072	369,290
Other non-instructional services	1,113	1,966
Extracurricular activities	381,042	436,563
Interest and fiscal charges	<u>7,551</u>	<u>6,586</u>
Total expenses	<u>10,927,666</u>	<u>10,877,715</u>
Change in net assets	(1,101,679)	(92,549)
Net assets at beginning of year	<u>3,579,089</u>	<u>3,671,638</u>
Net assets at end of year	<u>\$ 2,477,410</u>	<u>\$ 3,579,089</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,101,679. Total governmental expenses of \$10,927,666 were offset by program revenues of \$1,946,573 and general revenues of \$7,879,414. Program revenues supported 17.81% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 79.02% of total governmental revenue. Real estate property is reappraised every six years.

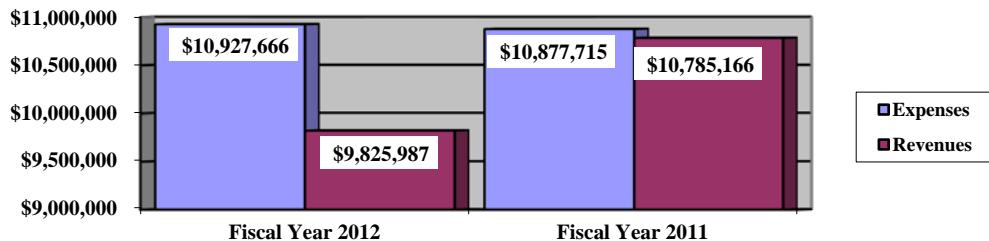
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,276,845 or 57.44% of total governmental expenses for fiscal year 2012.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2012 and 2011.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Program expenses				
Instruction:				
Regular	\$ 4,937,623	\$ 4,332,824	\$ 4,929,008	\$ 4,475,496
Special	748,882	322,510	661,732	260,997
Vocational	318,314	253,318	432,023	367,027
Other	272,026	272,026	232,794	-
Support services:				
Pupil	640,483	578,644	619,247	465,493
Instructional staff	417,529	300,216	401,061	326,226
Board of education	31,997	31,997	37,951	37,951
Administration	891,028	826,628	876,786	807,461
Fiscal	360,831	360,831	331,708	331,558
Operations and maintenance	591,299	566,356	679,232	678,114
Pupil transportation	934,476	917,043	854,943	816,955
Central	5,400	-	6,825	-
Food service operations	388,072	(28,221)	369,290	(24,460)
Operations of non-instructional services	1,113	1,113	1,966	1,415
Extracurricular activities	381,042	238,257	436,563	202,531
Interest and fiscal charges	<u>7,551</u>	<u>7,551</u>	<u>6,586</u>	<u>6,586</u>
Total expenses	<u>\$ 10,927,666</u>	<u>\$ 8,981,093</u>	<u>\$ 10,877,715</u>	<u>\$ 8,753,350</u>

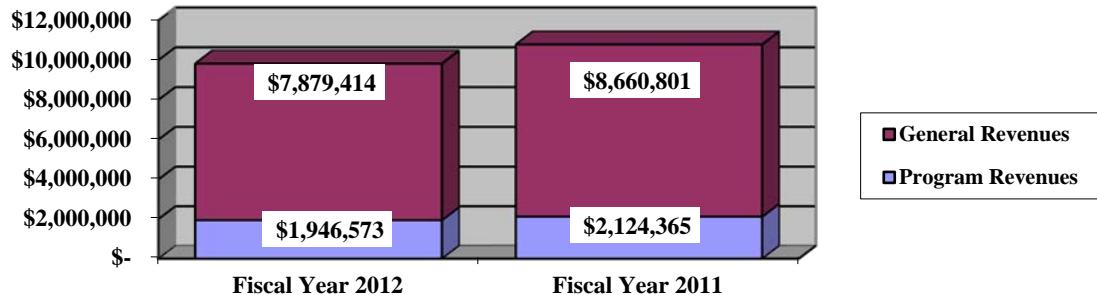
The dependence upon tax and other general revenues for governmental activities is apparent, as 82.54% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.19%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are the primary support for District's students.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The graph below presents the District's governmental activities revenue for fiscal year 2012 and 2011.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$753,371, which is less than last year's total of \$2,118,039. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance <u>June 30, 2012</u>	Fund Balance <u>June 30, 2011</u>	(Decrease)
General	\$ 447,294	\$ 1,534,529	\$(1,087,235)
Other governmental	<u>306,077</u>	<u>583,510</u>	(277,433)
Total	<u>\$ 753,371</u>	<u>\$ 2,118,039</u>	<u>\$(1,364,668)</u>

General Fund

The District's general fund's fund balance decreased by \$1,087,235. This decrease is the result of a decrease in revenues of \$566,819 along with a \$331,758 increase in expenditures, primarily in support services during fiscal year 2012.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 3,598,720	\$ 3,981,902	(9.62) %
Tuition	375,545	333,717	12.53 %
Earnings on investments	3,015	5,465	(44.83) %
Intergovernmental	4,274,504	4,500,587	(5.02) %
Other revenues	<u>134,063</u>	<u>130,995</u>	2.34 %
Total	<u><u>\$ 8,385,847</u></u>	<u><u>\$ 8,952,666</u></u>	(6.33) %
<u>Expenditures</u>			
Instruction	\$ 5,600,306	\$ 5,452,214	2.72 %
Support services	3,580,164	3,405,844	5.12 %
Operation of non-instructional services	465	1,367	(65.98) %
Extracurricular activities	243,152	244,807	(0.68) %
Facilities acquisition and construction	<u>14,365</u>	<u>2,462</u>	483.47 %
Total	<u><u>\$ 9,438,452</u></u>	<u><u>\$ 9,106,694</u></u>	3.64 %

Tax revenue decreased \$383,182 or 9.62% due to less advances available at June 30, 2012 as compared to June 30, 2011. Tuition increased due to an increase in open enrollment. While percentage changes for earnings on investments, operation of non-instructional services and facilities acquisition and construction were significant, the change in dollars was immaterial. All other revenues and expenditures were comparable to the prior year.

General Fund Budgeting Highlights

The 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 District amended its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$8,473,421 and \$8,765,359 respectively. Actual revenues and other financing sources for fiscal year 2012 was \$8,765,379. This represents a \$20 increase over final budgeted revenues.

General fund original and final appropriations (appropriated expenditures and other financing uses) were \$10,009,833. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$9,753,707 which was \$256,126 less than the final budget appropriations.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$1,993,530 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and textbooks. The entire amount is reported in governmental activities. The following table shows fiscal year 2012 balances compared to 2011:

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

Governmental Activities

	<u>2012</u>	<u>2011</u>
Land	\$ 51,970	\$ 51,970
Construction in progress	-	55,522
Land improvements	156,532	161,683
Building and improvements	1,031,642	878,744
Furniture and equipment	422,946	284,009
Vehicles	250,460	301,574
Infrastructure	15,039	15,589
Textbooks	<u>64,941</u>	<u>53,675</u>
Total	<u>\$ 1,993,530</u>	<u>\$ 1,802,766</u>

Total additions to capital assets for 2012 were \$451,859. Disposals to capital assets for 2012 were \$2,082 (net of accumulated depreciation). Depreciation expense for fiscal year 2012 was \$259,013. Overall, capital assets of the District increased \$190,764. See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2012, the District had \$169,850 in energy conservation notes and sewer improvement bonds outstanding. Of this total, \$62,000 is due within one year and \$107,850 is due in more than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2012</u>	<u>Governmental Activities 2011</u>
Sewer improvement bonds	\$ 94,500	\$ 121,500
Energy conservation notes	<u>75,350</u>	<u>105,350</u>
Total	<u>\$ 169,850</u>	<u>\$ 226,850</u>

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

Current Financial Related Activities

The District continues to receive strong support from the residents of the District. As the preceding information shows, the District relies heavily on its local property taxpayers. The last new operating levy passed by the residents of the District was in August, 1999, with the promise that the revenue generated by a levy would provide sufficient funding for four years. The Board of Education replaced a 7.4 mill operating levy in November 2004 and a 4.8 mill operating levy in November 2005. In November 2006, the Board of Education replaced a 3.0 mills continuing operating levy.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$110,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 39% of revenues for governmental activities for the Hillsdale Local District in fiscal year 2012.

The District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched for the four years it was planned. This has been made increasingly difficult with mandates in rising utility costs, increased special education services required for our students, and significant increases in bus fuel/gas and bus parts/supplies.

Effective July 1, 2012, with the biennial budget, State revenue is not anticipated to grow. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The Superintendent of Public Instruction declared the District in a state of fiscal caution effective June 14, 2012.

In addition, the District's systems of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marjorie Travis, Treasurer at 485 TR 1902, Jeromesville, Ohio, e-mail hill_travis@tccsa.net.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 988,563
Cash with fiscal agent	1,033,575
Receivables:	
Taxes	4,484,011
Accounts.	2,949
Intergovernmental	33,229
Prepayments	132,057
Materials and supplies inventory.	9,542
Inventory held for resale	6,943
Capital assets:	
Land	51,970
Depreciable capital assets, net	<u>1,941,560</u>
Capital assets, net	<u>1,993,530</u>
Total assets.	<u>8,684,399</u>
Liabilities:	
Accounts payable.	26,234
Contracts payable.	35,443
Accrued wages and benefits	835,061
Pension obligation payable.	200,112
Intergovernmental payable	24,284
Claims payable.	285,593
Unearned revenue	3,670,122
Accrued interest payable	535
Long-term liabilities:	
Due within one year.	179,741
Due in more than one year.	<u>949,864</u>
Total liabilities	<u>6,206,989</u>
Net assets:	
Invested in capital assets, net	
of related debt.	1,823,680
Restricted for:	
Capital projects	81,800
Locally funded programs	81
Student activities	26,215
Other purposes	75,295
Unrestricted	<u>470,339</u>
Total net assets	<u>\$ 2,477,410</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Expenses	Program Revenues					Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions			Governmental Activities
Governmental activities:							
Instruction:							
Regular	\$ 4,937,623	\$ 415,748	\$ 189,051	\$ -	\$ -	\$ (4,332,824)	
Special	748,882	1,088	425,284	-	-	(322,510)	
Vocational	318,314	-	64,996	-	-	(253,318)	
Other	272,026	-	-	-	-	(272,026)	
Support services:							
Pupil.	640,483	-	61,839	-	-	(578,644)	
Instructional staff	417,529	-	117,313	-	-	(300,216)	
Board of education	31,997	-	-	-	-	(31,997)	
Administration.	891,028	-	64,400	-	-	(826,628)	
Fiscal.	360,831	-	-	-	-	(360,831)	
Operations and maintenance	591,299	-	946	23,997	-	(566,356)	
Pupil transportation.	934,476	-	17,433	-	-	(917,043)	
Central	5,400	-	5,400	-	-	-	
Operation of non-instructional services:							
Other non-instructional services	1,113	-	-	-	-	(1,113)	
Food service operations	388,072	230,319	185,974	-	-	28,221	
Extracurricular activities.	381,042	142,785	-	-	-	(238,257)	
Interest and fiscal charges	7,551	-	-	-	-	(7,551)	
Total governmental activities	<u>\$ 10,927,666</u>	<u>\$ 789,940</u>	<u>\$ 1,132,636</u>	<u>\$ 23,997</u>			<u>(8,981,093)</u>

General revenues:

Property taxes levied for:	
General purposes	3,584,978
Capital projects	188,738
Grants and entitlements not restricted	
to specific programs	3,990,398
Investment earnings	22,528
Miscellaneous	<u>92,772</u>
Total general revenues	<u>7,879,414</u>
Change in net assets	(1,101,679)
Net assets at beginning of year.	<u>3,579,089</u>
Net assets at end of year	<u>\$ 2,477,410</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 648,844	\$ 339,719	\$ 988,563
Receivables:			
Taxes	4,247,127	236,884	4,484,011
Accounts	1,074	1,875	2,949
Intergovernmental	3,362	29,867	33,229
Interfund loans	10,666	-	10,666
Prepayments	124,345	7,712	132,057
Materials and supplies inventory	8,411	1,131	9,542
Inventory held for resale	-	6,943	6,943
Total assets	<u>\$ 5,043,829</u>	<u>\$ 624,131</u>	<u>\$ 5,667,960</u>
Liabilities:			
Accounts payable	\$ 19,264	\$ 6,970	\$ 26,234
Contracts payable	-	35,443	35,443
Accrued wages and benefits	791,197	43,864	835,061
Compensated absences payable	23,967	-	23,967
Pension obligation payable	188,155	11,957	200,112
Interfund loans payable	-	10,666	10,666
Intergovernmental payable	23,105	1,179	24,284
Deferred revenue	208,330	21,546	229,876
Unearned revenue	<u>3,342,517</u>	<u>186,429</u>	<u>3,528,946</u>
Total liabilities	<u>4,596,535</u>	<u>318,054</u>	<u>4,914,589</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory	8,411	1,131	9,542
Prepays	124,345	7,712	132,057
Restricted:			
Capital improvements	-	77,372	77,372
Food service operations	-	80,603	80,603
Other purposes	-	81	81
Extracurricular	-	26,215	26,215
Committed:			
Capital improvements	-	125,445	125,445
Assigned:			
Student instruction	7,941	-	7,941
Student and staff support	60,397	-	60,397
Non-instructional services	8,788	-	8,788
Subsequent year appropriations	237,412	-	237,412
Unassigned (deficit)	<u>-</u>	<u>(12,482)</u>	<u>(12,482)</u>
Total fund balances	<u>447,294</u>	<u>306,077</u>	<u>753,371</u>
Total liabilities and fund balances	<u>\$ 5,043,829</u>	<u>\$ 624,131</u>	<u>\$ 5,667,960</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances	\$ 753,371
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,993,530
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Intergovernmental receivable	\$ 10,150
Delinquent property taxes receivable	<u>219,726</u>
Total	229,876
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.	606,806
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.	
Energy conservation notes	(75,350)
Compensated absences payable	(935,788)
Sewer improvement bonds	(94,500)
Accrued interest payable	<u>(535)</u>
Total	<u>(1,106,173)</u>
Net assets of governmental activities	<u>\$ 2,477,410</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$ 3,598,720	\$ 191,434	\$ 3,790,154
Tuition.	375,545	-	375,545
Charges for services	-	230,319	230,319
Earnings on investments	3,015	24	3,039
Extracurricular.	-	142,785	142,785
Classroom materials and fees	41,291	-	41,291
Contributions and donations	15,547	23,997	39,544
Other local revenues	77,225	1,024	78,249
Intergovernmental - intermediate	-	2,520	2,520
Intergovernmental - state	4,269,797	59,410	4,329,207
Intergovernmental - federal	4,707	785,829	790,536
Total revenues	<u>8,385,847</u>	<u>1,437,342</u>	<u>9,823,189</u>
Expenditures:			
Current:			
Instruction:			
Regular.	4,464,322	224,495	4,688,817
Special	556,544	172,953	729,497
Vocational	307,414	3,999	311,413
Other	272,026	-	272,026
Support services:			
Pupil	560,681	71,955	632,636
Instructional staff	285,902	125,732	411,634
Board of education	29,418	-	29,418
Administration	813,014	65,263	878,277
Fiscal	349,184	6,653	355,837
Operations and maintenance	699,593	31,414	731,007
Pupil transportation	842,372	1,269	843,641
Central	-	5,400	5,400
Operation of non-instructional services:			
Food service operations.	-	377,521	377,521
Other non-instructional services	465	648	1,113
Extracurricular activities	243,152	161,608	404,760
Facilities acquisition and construction.	14,365	435,755	450,120
Debt service:			
Principal retirement.	-	57,000	57,000
Interest and fiscal charges	-	7,740	7,740
Total expenditures	<u>9,438,452</u>	<u>1,749,405</u>	<u>11,187,857</u>
Excess of expenditures over revenues	<u>(1,052,605)</u>	<u>(312,063)</u>	<u>(1,364,668)</u>
Other financing sources (uses):			
Transfers in.	-	64,740	64,740
Transfers (out)	(34,630)	(30,110)	(64,740)
Total other financing sources (uses)	<u>(34,630)</u>	<u>34,630</u>	<u>-</u>
Net change in fund balances	<u>(1,087,235)</u>	<u>(277,433)</u>	<u>(1,364,668)</u>
Fund balances at beginning of year	<u>1,534,529</u>	<u>583,510</u>	<u>2,118,039</u>
Fund balances at end of year	<u>\$ 447,294</u>	<u>\$ 306,077</u>	<u>\$ 753,371</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds	\$ (1,364,668)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital asset additions	\$ 451,859
Current year depreciation	<u>(259,013)</u>
Total	192,846

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (2,082)

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

Delinquent property taxes	(16,438)
Intergovernmental	<u>(3,804)</u>
Total	(20,242)

An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (153,088)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

Sewer improvement bonds	27,000
Energy conservation notes	<u>30,000</u>
Total	57,000

In the statement of activities, interest is accrued on outstanding notes and bonds, whereas in governmental funds, an interest expenditure is reported when due. 189

Some expenses reported in the statement of activities, such as compensated absences and pollution remediation obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

<u>188,366</u>	\$ (1,101,679)
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Change in net assets of governmental activities	\$ (1,101,679)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources:				
Taxes	\$ 3,614,690	\$ 4,048,493	\$ 4,048,493	\$ -
Tuition	333,000	375,545	375,545	-
Earnings on investments	5,000	2,935	3,015	80
Classroom materials and fees	14,500	17,935	17,936	1
Contributions and donations	11,000	8,946	8,946	-
Other local revenues	8,500	8,050	7,988	(62)
Intergovernmental - state	4,469,993	4,269,797	4,269,797	-
Intergovernmental - federal	2,000	4,173	4,174	1
Total revenues	<u>8,458,683</u>	<u>8,735,874</u>	<u>8,735,894</u>	<u>20</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,613,340	4,613,340	4,605,689	7,651
Special.	569,935	569,935	562,048	7,887
Vocational.	378,089	378,089	374,416	3,673
Other.	266,085	266,085	272,026	(5,941)
Support services:				
Pupil.	532,265	532,265	519,930	12,335
Instructional staff	304,013	304,013	298,134	5,879
Board of education	41,065	41,065	37,342	3,723
Administration.	865,048	865,048	846,463	18,585
Fiscal	363,745	363,745	354,348	9,397
Operations and maintenance.	746,562	746,562	694,062	52,500
Pupil transportation	897,149	897,149	885,759	11,390
Operation of non-instructional services	1,607	1,607	758	849
Extracurricular activities.	244,060	244,060	241,941	2,119
Facilities acquisition and construction	6,400	6,400	14,365	(7,965)
Total expenditures	<u>9,829,363</u>	<u>9,829,363</u>	<u>9,707,281</u>	<u>122,082</u>
Excess of expenditures over revenues	<u>(1,370,680)</u>	<u>(1,093,489)</u>	<u>(971,387)</u>	<u>122,102</u>
Other financing sources (uses):				
Refund of prior year's expenditures	-	15,009	15,009	-
Refund of prior year's receipts.	(1,135)	(1,135)	(1,130)	5
Transfers (out).	(34,630)	(34,630)	(34,630)	-
Advances in.	13,738	13,738	13,738	-
Advances (out)	(10,665)	(10,665)	(10,666)	(1)
Contingencies	(134,040)	(134,040)	-	134,040
Sale of capital assets	1,000	738	738	-
Total other financing sources (uses)	<u>(165,732)</u>	<u>(150,985)</u>	<u>(16,941)</u>	<u>134,044</u>
Net change in fund balance	(1,536,412)	(1,244,474)	(988,328)	256,146
Fund balance at beginning of year	1,521,492	1,521,492	1,521,492	-
Prior year encumbrances appropriated	19,673	19,673	19,673	-
Fund balance at end of year	\$ 4,753	\$ 296,691	\$ 552,837	\$ 256,146

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Cash with fiscal agent	\$ 1,033,575
Total assets.	<u>1,033,575</u>
Liabilities:	
Claims payable	285,593
Unearned revenue	<u>141,176</u>
Total liabilities	<u>426,769</u>
Net assets:	
Unrestricted.	<u>606,806</u>
Total net assets	<u>\$ 606,806</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Charges for services.	\$ 1,465,223
Total operating revenues	<u>1,465,223</u>
Operating expenses:	
Contractual services	538,916
Claims	1,098,884
Total operating expenses.	<u>1,637,800</u>
Operating loss	<u>(172,577)</u>
Nonoperating revenues:	
Interest revenue	19,489
Total nonoperating revenues.	<u>19,489</u>
Change in net assets.	(153,088)
Net assets at beginning of year	759,894
Net assets at end of year	<u>\$ 606,806</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,485,989
Cash payments for contractual services.	(538,916)
Cash payments for claims	<u>(1,071,031)</u>
Net cash used in operating activities	<u>(123,958)</u>
Cash flows from investing activities:	
Interest received	<u>19,489</u>
Net cash provided by investing activities	<u>19,489</u>
Net decrease in cash with fiscal agent	(104,469)
Cash with fiscal agent at beginning of year . . .	1,138,044
Cash with fiscal agent at end of year	<u>\$ 1,033,575</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (172,577)
Changes in assets and liabilities:	
Increase in unearned revenue.	20,766
Increase in claims payable	<u>27,853</u>
Net cash used in operating activities	<u>\$ (123,958)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2012

	Private Purpose Trust		Scholarship	Agency
Assets:				
Equity in pooled cash and cash equivalents	\$ 8,398		\$ 32,560	
Receivables:				
Accounts	-		55	
Total assets.	<u>8,398</u>		<u>\$ 32,615</u>	
Liabilities:				
Accounts payable.	-		\$ 403	
Due to students.	-		<u>32,212</u>	
Total liabilities	-		<u>\$ 32,615</u>	
Net assets:				
Held in trust for scholarships	<u>8,398</u>			
Total net assets	<u><u>\$ 8,398</u></u>			

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Private Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 4
Total additions.	<u>4</u>
Change in net assets.	4
Net assets at beginning of year	<u>8,394</u>
Net assets at end of year.	<u>\$ 8,398</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Hillsdale Local School District (the “District”) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members and is responsible for providing public education to residents of the District.

The District employs 49 non-certified and 77 certified full-time and part-time employees to provide services to 1,039 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities and proprietary fund provided it does not conflict with or contradict GASB pronouncements. The District’s significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District.

JOINTLY GOVERNED ORGANIZATIONS

Tri-County Computer Service Association

The Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic technology for administrative and instructional functions for member school districts. Each of the governments of these school districts supports TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. TCCSA is governed by a Board of Directors chosen from the general membership of the TCCSA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating school districts are located. Financial information can be obtained by contacting the treasurer at Tri-County Educational Services Center, which serves as fiscal agent, located in Wooster, Ohio. During the fiscal year ended June 30, 2012, the District paid \$133,562 to TCCSA.

Ashland County - West Holmes Career Center

The Ashland County-West Holmes Career Center (the "Career Center"), a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven-member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of the State of Ohio. The continued existence of the Career Center is not dependent on the District's continued participation and no measurable equity interest exists.

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Educational Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing insurance. OME-RESA is governed by a Board of Directors consisting of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Ohio School Plan

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust fund which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities and monies held on-behalf of others.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All (non-fiduciary) assets and liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for services. Operating expenses for the internal service fund includes claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private purpose trust fund is reported using the economic resources measurement focus. The agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are recorded as deferred revenue in the governmental funds.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the fiscal year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures 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 for all funds. The treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund budgetary statement comparison at the fund and function level.

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes, all investment earnings are assigned to the general fund, unless statutorily required to be credited to a specific fund or by Board resolution. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$3,015, which includes \$905 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$3,000. 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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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>Governmental Activities</u>	<u>Estimated Lives</u>
Land improvements	5 - 50 years	
Buildings and improvements	5 - 50 years	
Furniture and equipment	5 - 20 years	
Vehicles	6 - 20 years	
Infrastructure	5 - 50 years	
Textbooks	20 years	

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the statement of net assets.

J. 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 employer will compensate the employees for the benefits through paid time off or some other means.

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. 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 internal service fund are reported on the proprietary 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, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and notes are recognized as a liability on the fund financial statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the 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 classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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 District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the 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 District for specific purposes but do not meet the criteria to be classified as restricted nor 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 policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist of amounts restricted for food service.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

P. Interfund Activity

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 nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had no restricted assets at June 30, 2012.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, and GASB Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53”.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty’s credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Vocational education enhancement	\$ 14
Education jobs	25
Entry year/resident educator	4
IDEA Part-B	3
Title I	10,072
Improving teacher quality	12

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the District had \$125 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent (See Note 10.D.). The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2012 was \$1,033,575. This represents the balance of the District's employee benefit self-insurance fund. This amount is not included in the "deposits" or "investments" reported below.

C. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$663,963. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$373,875 of the District's bank balance of \$744,406 was exposed to custodial risk as discussed below, while \$370,531 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2012, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>less</u>
STAR Ohio	\$ 365,433	\$ 365,433

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 365,433	100.00

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 663,963
Investments	365,433
Cash with fiscal agent	1,033,575
Cash on hand	125
Total	\$ 2,063,096

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,022,138
Private-purpose trust fund	8,398
Agency fund	32,560
Total	\$ 2,063,096

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2012 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ <u>10,666</u>

The primary purpose of the interfund balance is to cover costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received. The interfund balance is expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund transfers for the fiscal year ended June 30, 2012, consisted of the following, as reported on the fund financial statements:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 34,630
Nonmajor governmental funds	Nonmajor governmental funds	<u>30,110</u>
Total		<u>\$ 64,740</u>

The \$34,630 and \$30,110 transfers from the general fund and the nonmajor permanent improvement fund, respectively, were required to move resources to the debt service fund for retirement of the District's notes and bonds. Interfund transfers between governmental funds are eliminated on the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Ashland and Wayne Counties. The County Auditors periodically advance to the 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 as an advance at June 30, 2012 was \$696,492 in the general fund and \$38,847 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$1,146,265 in the general fund and \$73,905 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal 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 unearned revenue.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 129,654,410	88.21	\$ 128,925,380	87.68
Public utility personal	<u>17,336,220</u>	<u>11.79</u>	<u>18,120,360</u>	<u>12.32</u>
Total	<u>\$ 146,990,630</u>	<u>100.00</u>	<u>\$ 147,045,740</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$49.40		\$49.40

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the receivables on the statement of net assets follows:

Governmental activities:

Taxes	\$ 4,484,011
Accounts	2,949
Intergovernmental	<u>33,229</u>
Total	<u>\$ 4,520,189</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 7 - RECEIVABLES - (Continued)

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

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

Governmental activities:	<u>Balance</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>	<u>June 30, 2012</u>
<i>Capital assets, not being depreciated:</i>						
Land	\$ 51,970	\$ -	\$ -	\$ 51,970		
Construction in progress	<u>55,522</u>	<u>365,158</u>	<u>(420,680)</u>			
Total capital assets, not being depreciated	<u>107,492</u>	<u>365,158</u>	<u>(420,680)</u>			<u>51,970</u>
<i>Capital assets, being depreciated:</i>						
Land improvements	321,761	-	-	321,761		
Buildings and improvements	2,681,047	274,020	-	2,955,067		
Furniture and equipment	1,058,860	194,694	(3,268)	1,250,286		
Vehicles	998,354	24,970	(71,194)	952,130		
Infrastructure	24,257	-	-	24,257		
Textbooks	<u>532,988</u>	<u>13,697</u>				<u>546,685</u>
Total capital assets, being depreciated	<u>5,617,267</u>	<u>507,381</u>	<u>(74,462)</u>			<u>6,050,186</u>
<i>Less: accumulated depreciation:</i>						
Land improvements	(160,078)	(5,151)	-	(165,229)		
Buildings and improvements	(1,802,303)	(121,122)	-	(1,923,425)		
Furniture and equipment	(774,851)	(55,430)	2,941	(827,340)		
Vehicles	(696,780)	(74,329)	69,439	(701,670)		
Infrastructure	(8,668)	(550)	-	(9,218)		
Textbooks	<u>(479,313)</u>	<u>(2,431)</u>				<u>(481,744)</u>
Total accumulated depreciation	<u>(3,921,993)</u>	<u>(259,013)</u>	<u>72,380</u>			<u>(4,108,626)</u>
Governmental activities capital assets, net	<u>\$ 1,802,766</u>	<u>\$ 613,526</u>	<u>\$ (422,762)</u>			<u>\$ 1,993,530</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 155,937
Special	1,101
Vocational	1,000

Support services:

Pupil	376
Instructional staff	581
Administration	2,252
Operations and maintenance	4,882
Pupil transportation	82,690
Extracurricular activities	1,103
Food service operations	<u>9,091</u>
Total depreciation expense	<u>\$ 259,013</u>

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2012, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>July 1, 2011</u>	Additions	Reductions	Balance Outstanding <u>June 30, 2012</u>	Amounts Due in <u>One Year</u>
2011 Sewer improvement bonds: \$135,000, 2.710% interest rate, matures December 1, 2015	\$ 121,500	\$ -	\$ (27,000)	\$ 94,500	\$ 27,000
2000 Energy conservation notes: \$287,000, 5.125% interest rate, matures December 31, 2013	105,350	-	(30,000)	75,350	35,000
Pollution remediation obligation	242,352	-	(242,352)	-	-
Compensated absences	<u>960,746</u>	<u>91,489</u>	<u>(92,480)</u>	<u>959,755</u>	<u>117,741</u>
Total governmental activities	<u>\$ 1,429,948</u>	<u>\$ 91,489</u>	<u>\$ (391,832)</u>	<u>\$ 1,129,605</u>	<u>\$ 179,741</u>

The energy conservation notes are direct obligations of the District for which its full faith, credit and resources are pledged. Proceeds from the notes were used for energy conservation improvements to school buildings. Principal and interest payments on the energy conservation notes are made from the debt service fund (a nonmajor governmental fund).

Compensated absences will be paid from the fund which the employees' salaries are paid which, for the District is the general fund.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the energy conservation notes outstanding at June 30, 2012, are as follows:

Fiscal Year <u>Ending June 30</u>	Energy Conservation Notes		
	Principal	Interest	Total
2013	\$ 35,000	\$ 2,965	\$ 37,965
2014	<u>40,350</u>	<u>1,034</u>	<u>41,384</u>
Total	<u><u>\$ 75,350</u></u>	<u><u>\$ 3,999</u></u>	<u><u>\$ 79,349</u></u>

- B.** The District issued sewer improvement bonds on April 29, 2011. The sewer improvement bonds are direct obligations of the District for which its full faith, credit and resources are pledged. Proceeds of the bonds were used for acquiring and constructing various sewer improvements at Hillsdale High School. Principal and interest payments on the sewer improvement bonds are made from the debt service fund (a nonmajor governmental fund).

Principal and interest requirements to retire the sewer improvement bonds outstanding at June 30, 2012, are as follows:

Fiscal Year <u>Ending June 30</u>	Sewer Improvement Bonds		
	Principal	Interest	Total
2013	\$ 27,000	\$ 2,378	\$ 29,378
2014	27,000	1,646	28,646
2015	27,000	915	27,915
2016	<u>13,500</u>	<u>183</u>	<u>13,683</u>
Total	<u><u>\$ 94,500</u></u>	<u><u>\$ 5,122</u></u>	<u><u>\$ 99,622</u></u>

- C.** The pollution remediation obligation included a liability for one project: the Water Pollution Control Act (ORC 6111), the District's wastewater treatment plant (WWTP) upgrade and repair.

The District estimates the cost of the project to be approximately \$274,020. The District recorded expenditures of \$238,577 and a contract payable of \$35,443 at June 30, 2012. The District issued the sewer improvement bonds in fiscal year 2011 to finance a portion of the project. As of June 30, 2012, the District had not received any grant proceeds.

The EPA, through its testing procedures, determined that the current WWTP did not meet the standards of a Class A facility. Improvements or a replacement is required to get the facility to meet current effluent limitation requirements and to bring the sewage treatment facility to a Class A facility.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$13,139,617 and an unvoted debt margin of \$147,046.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the District contracted for the following insurance coverage.

Coverage provided by the Ohio School Plan is as follows:

General Liability	
General Aggregate Limit	\$ 7,000,000
Blanket Property (\$1,000 deductible)	30,029,014
Vehicle Liability	5,000,000
Uninsured/Underinsured Motorists	1,000,000

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

For fiscal year 2012, the District participated in the Ohio School Plan ("the Plan"), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

B. Fidelity Bond

The Board President and Superintendent hold position bonds and the Treasurer/CFO holds a Treasurer bond through OSBA with limits of \$20,000, \$20,000 and \$100,000, respectively. All other school employees are covered under the District's employee dishonesty coverage with a \$100,000 limit, with a \$1,000 deductible, which is separate from the property policy.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. For fiscal year 2012, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate.

Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

D. Employee Health Insurance

Medical/surgical, prescription, vision and dental insurance is offered to employees through a self-insurance program. The District has established a self-insurance internal service fund to account for this activity. The District is a member of the OME-RESA Health Benefits Program, a partially self-insured consortium of public employers in Ohio. The consortium has over 100 member organizations participating. Monthly accruals are paid to a custodian bank, U.S. Bank, acting as trustee on behalf of the fiscal agent. The trustees disburse payments to vendors for services rendered and to satisfy claim reimbursements for covered plan participants. The Jefferson County ESC acts in the role of fiscal agent for the consortium.

The claims liability of \$285,593 reported in the internal service fund at June 30, 2012 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2012	\$ 257,740	\$ 1,098,884	\$ (1,071,031)	\$ 285,593
2011	217,431	1,003,630	(963,321)	257,740

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$137,672, \$123,608 and \$134,452, respectively; 63.48 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$634,564, \$606,901 and \$598,300, respectively; 83.09 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$23,326 made by the District and \$16,661 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$24,676, \$35,667 and \$25,124, respectively; 63.48 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$8,130, \$7,954 and \$7,996, respectively; 63.48 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$48,813, \$46,685 and \$46,023, respectively; 83.09 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	
	<u>General fund</u>
Budget basis	\$ (988,328)
Net adjustment for revenue accruals	(448,401)
Net adjustment for expenditure accruals	315,092
Net adjustment for other sources/uses	(17,689)
Funds budgeted elsewhere*	5,776
Adjustment for encumbrances	<u>46,315</u>
GAAP basis	<u>\$ (1,087,235)</u>

*Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund and the public school support fund.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 14 - CONTINGENCIES

A. Grants and ADM

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 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 District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is not involved in material litigation as either plaintiff or defendant at June 30, 2012.

NOTE 15 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 15 - SET-ASIDES - (Continued)

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	182,150
Current year qualifying expenditures	(70,439)
Current year offsets	<u>(272,769)</u>
Total	<u>\$ (161,058)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u>\$ -</u>

NOTE 16 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

	Year-End
<u>Fund Type</u>	<u>Encumbrances</u>
General fund	\$ 33,388
Other governmental	<u>96,683</u>
Total	<u>\$ 130,071</u>

NOTE 17 - FINANCIAL CONDITION

On June 14, 2012, the District was declared to be in fiscal caution by the Ohio Department of Education and Auditor of State. Year end deficit balances have been disclosed in Note 3. An entity may be released from fiscal caution if the Department of Education determines that corrective actions have been or are being implemented. Management's plans regarding these matters have not yet been finalized. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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**HILSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

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

<u>Federal Grantor/ Passed Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Expenditures</u>	<u>Non-Cash Expenditures</u>
<u>U.S. Department of Agriculture</u>						
(Passed through the Ohio Department of Education)						
Child Nutrition Cluster: National School Lunch Program	10.555	N/A	\$153,615	\$17,625	\$153,615	\$17,625
Total Child Nutrition Cluster/U.S. Department of Agriculture			153,615	17,625	153,615	17,625
<u>U.S. Department of Education</u>						
(Passed through the Ohio Department of Education)						
Title I Grants to Local Educational Agencies	84.010	2011 2012	28,943 149,905		29,066 149,032	
Total Title I Grants to Local Educational Agencies			178,848		178,098	
Special Education_Grants to States	84.027	2011 2012	(2,226) 162,187		167,583	
Total Special Education_Grants to States			159,961		167,583	
Education Technology State Grants	84.318	2012	1,313		1,313	
Improving Teacher Quality State Grants	84.367	2011 2012	10,733 45,662		10,802 44,806	
Total Improving Teacher Quality State Grants			56,395		55,608	
ARRA - Race to the Top	84.395	2012	1,050		1,050	
Education Jobs Fund	84.410	2012	216,614		216,614	
Total U.S. Department of Education			614,181		620,266	
Totals			\$767,796	\$17,625	\$773,881	\$17,625

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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 Receipts and Expenditures Schedule (the Schedule) reports the Hillsdale Local School District, Ashland County, Ohio, (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 entitlement 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

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland 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 December 7, 2012, wherein we noted the District is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

Hillsdale Local School District
Ashland County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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 a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 7, 2012.

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



Dave Yost
Auditor of State

December 7, 2012



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

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

To the Board of Education:

Compliance

We have audited the compliance of the Hillsdale Local School District, Ashland 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 the District's major federal program 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 program. 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 Hillsdale Local School District, Ashland County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2012.

Hillsdale Local School District
Ashland County
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
Page 2

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 noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated December 7, 2012.

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



Dave Yost
Auditor of State

December 7, 2012

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Education Jobs Fund, CFDA 84.410
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**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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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

To the Board of Education:

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

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

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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

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

A handwritten signature of Dave Yost in black ink.

Dave Yost
Auditor of State

December 7, 2012

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www.ohioauditor.gov

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HILLSDALE LOCAL SCHOOL DISTRICT

ASHLAND 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.

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED
JANUARY 8, 2013