

Hillsboro City School District

Highland County, Ohio

Single Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com



Mary Taylor, CPA
Auditor of State

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

We have reviewed the *Independent Auditor's Report* of the Hillsboro City School District, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hillsboro City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 14, 2008

This Page is Intentionally Left Blank.

Hillsboro City School District
Table of Contents
For the Fiscal Year Ended June 30, 2007

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
Statement of Net Assets – Governmental Activities – Internal Service Fund	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Governmental Activities – Internal Service Fund	19
Statement of Cash Flows – Governmental Activities – Internal Service Fund	20
Statement of Fiduciary Net Assets – Fiduciary Funds	21
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	22
Notes to the Basic Financial Statements	23 - 46
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	48
Notes to the Required Supplementary Information	49 - 50
Schedule of Federal Awards Expenditures	51
Notes to the Schedule of Federal Awards Expenditures	52
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	53 - 54
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	55 - 56
Schedule of Findings and Questioned Costs – OMB Circular A 1-33 Section .505	57 – 59
Schedule of Prior Year Findings	60

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the Hillsboro City School District, Highland County, Ohio, (the District) as of and for the year ended June 30, 2007, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinions.

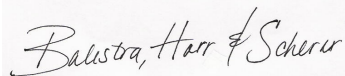
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 11 and 47 through 50 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board
Hillsboro City School District
Independent Auditor's Report
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Balestra, Harr & Scherer, CPAs, Inc.
February 29, 2008

HILLSBORO CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2007
(Unaudited)

The discussion and analysis of Hillsboro City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets increased \$2,166,437.
- General revenues accounted for \$21,360,229 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,791,109 or 18% of total revenues of \$26,151,338.
- The District had \$23,984,901 in expenses related to governmental activities; \$4,791,109 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$21,360,229 were also used to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand 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. The General Fund and Classroom Facilities Fund are the major funds of the District.

Government-wide Financial Statements

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 questions, “How did we do financially during 2007?” The Government-wide Financial Statements answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the 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 has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. 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 Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District’s programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Fund Financial Statements

The analysis of the District’s major funds are presented in the Fund Financial Statements. Fund financial statements 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.

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 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 financial statements.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District’s own programs.

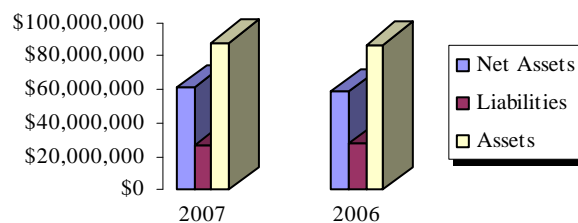
The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net assets for 2007 compared to 2006:

Table 1
Net Assets

	Governmental Activities	
	2007	2006 Restated
Assets		
Current Assets	\$56,433,394	\$65,887,958
Capital Assets	31,741,207	21,124,607
Total Assets	88,174,601	87,012,565
Liabilities		
Long-Term Liabilities	13,694,250	13,539,066
Other Liabilities	13,489,053	14,648,638
Total Liabilities	27,183,303	28,187,704
Net Assets		
Invested in Capital		
Assets Net of Debt	19,457,048	8,487,292
Restricted	41,377,074	51,218,654
Unrestricted	157,176	(881,085)
Total Net Assets	\$60,991,298	\$58,824,861



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$60,991,298.

At year-end, capital assets represented 36% of total assets. Capital assets include land, construction in progress, buildings and improvements and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2007, was \$19,457,048. 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.

A portion of the District's net assets, \$41,377,074, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets decreased from the prior year mainly because the District received approximately \$14.8 million in state monies from the Ohio School Facilities Commission (OSFC), which reduced the receivable balance, offset by an increase in taxes receivable owed to the District at year-end compared to 2006. Capital assets increased in 2007 as compared to 2006 mainly due to the continuing construction of various school improvement projects for the District. Other liabilities decreased due to the District paying off a \$3.25 million short-term school improvement bond anticipation note that was issued in fiscal year 2006, offset by the increase in contracts payable related to the OSFC project.

Table 2 shows the change in net assets for fiscal year 2007.

Table 2
Changes in Net Assets

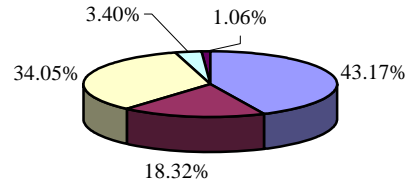
	Governmental Activities	
	2007	2006 Restated
Revenues		
Program Revenues:		
Charges for Services	\$1,376,701	\$1,512,592
Operating Grants	3,389,648	4,474,227
Capital Grants	24,760	46,127
General Revenue:		
Income Taxes	2,504,585	2,260,865
Property Taxes	6,400,251	6,160,234
Grants and Entitlements	11,290,690	59,396,713
Other	1,164,703	408,008
Total Revenues	<u>26,151,338</u>	<u>74,258,766</u>
Program Expenses:		
Instruction	13,103,518	13,517,075
Support Services:		
Pupil and Instructional Staff	2,575,464	2,641,355
General and School Administrative, and Fiscal	2,849,565	2,814,327
Operations and Maintenance	1,660,963	1,858,348
Pupil Transportation	1,412,769	1,513,206
Central	143,722	17,078
Operation of Non-Instructional Services	1,110,474	1,169,919
Extracurricular Activities	436,226	577,816
Interest and Fiscal Charges	692,200	506,816
Total Expenses	<u>23,984,901</u>	<u>24,615,940</u>
Change in Net Assets	2,166,437	49,642,826
Beginning Net Assets	<u>58,824,861</u>	<u>9,182,035</u>
Ending Net Assets	<u>\$60,991,298</u>	<u>\$58,824,861</u>

The District revenues are mainly from two sources. Property taxes levied for general, special revenue and debt service purposes and grants and entitlements comprised 68% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary 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 Ohio 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 24% of revenue for governmental activities for the District in fiscal year 2007.

<u>Revenue Sources</u>	<u>2007</u>	<u>Percent of Total</u>
General Grants	\$11,290,690	43.17%
Program Revenues	4,791,109	18.32%
General Tax Revenues	8,904,836	34.05%
Investment Earnings	889,435	3.40%
Other Revenues	275,268	1.06%
	<u>\$26,151,338</u>	<u>100.00%</u>



Instruction comprises 55% of governmental program expenses. Support services expenses were 36% of governmental program expenses. All other expenses and interest expense was 9%. Interest expense was attributable to the outstanding bonds, leases, and borrowing for capital projects.

Grants and Entitlements decreased mainly due to the recognition of state monies awarded from the Ohio School Facilities Commission for school improvements being recorded as revenue in the prior year. Total expenses remained relatively consistent in 2007 compared to 2006.

Governmental Activities

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction	\$13,103,518	\$13,517,075	(\$9,702,499)	(\$10,670,053)
Support Services:				
Pupil and Instructional Staff	2,575,464	2,641,355	(2,437,465)	(1,339,717)
General and School Administrative, and Fiscal	2,849,565	2,814,327	(2,641,979)	(2,554,936)
Operations and Maintenance	1,660,963	1,858,348	(1,592,230)	(1,808,238)
Pupil Transportation	1,412,769	1,513,206	(1,336,439)	(1,471,938)
Central	143,722	17,078	(71,200)	(1,490)
Operation of Non-Instructional Services	1,110,474	1,169,919	(465,820)	114,019
Extracurricular Activities	436,226	577,816	(253,960)	(360,261)
Interest and Fiscal Charges	692,200	506,816	(692,200)	(490,380)
Total Expenses	<u>\$23,984,901</u>	<u>\$24,615,940</u>	<u>(\$19,193,792)</u>	<u>(\$18,582,994)</u>

The District's Funds

The District has two major governmental funds: the General Fund and Classroom Facilities Fund. Assets of the general fund comprised \$11,808,872 (21%) and the classroom facilities fund comprised \$40,547,968 (72%) of the total \$56,462,969 governmental funds assets.

General Fund: Fund balance at June 30, 2007 was \$1,212,369 an increase in fund balance of \$1,546,649 from 2006. The increase in fund balance was mainly due to the increase in taxes and intergovernmental revenue.

Classroom Facilities Fund: Fund balance at June 30, 2007 was \$10,385,769, an increase in fund balance of \$6,243,996. The increase in fund balance was mainly due to the increase in intergovernmental revenue from the Ohio School Facilities Commission for school improvements.

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.

The District amended its general fund budget once at the fiscal year end. The District revised the Budget to deal with unexpected changes in revenues and expenditures.

For the General Fund, original estimated revenue was \$19,703,978. The final estimated revenue was \$21,266,668. The difference was due to an increase in intergovernmental revenue.

The District's ending unobligated cash balance was \$805,239 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$31,741,207 invested in land, construction in progress, buildings and improvements, and equipment. Table 4 shows fiscal 2007 balances compared to fiscal 2006:

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

	Governmental Activities	
	2007	2006
Land	\$1,522,499	\$1,522,499
Construction in Progress	25,828,356	15,043,521
Buildings and Improvements	2,893,353	2,984,017
Equipment	<u>1,496,999</u>	<u>1,574,570</u>
Total Net Capital Assets	<u>\$31,741,207</u>	<u>\$21,124,607</u>

The increase in capital assets is mainly due to the continuing construction of various school improvements projects for the District.

See Note 6 to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2007, the District had \$12,897,159 in bonds and capital leases payable, \$424,739 due within one year. Table 5 summarizes outstanding debt at year end.

Table 5
Outstanding Debt, at Year End

	Governmental	Governmental
	Activities	Activities
	2007	2006
Bonds Payable:		
School Improvement Bonds	\$12,140,000	\$12,425,000
Capital Leases	<u>757,159</u>	<u>212,315</u>
Total Outstanding Debt at Year End	<u>\$12,897,159</u>	<u>\$12,637,315</u>

See Note 8 to the basic financial statements for further details on the District's long-term obligations.

For the Future

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone, and telecommunications companies, and railroads. The tax on general business and railroad property began being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunication property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are being reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and 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 Jeff Anderson, Treasurer at Hillsboro City School District, 338 West Main Street, Hillsboro, Ohio 45133.

Hillsboro City School District
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$16,301,163
Restricted Cash and Investments	235,907
Receivables:	
Taxes	10,843,072
Accounts	73
Intergovernmental	29,052,050
Inventory	1,129
Nondepreciable Capital Assets	27,350,855
Depreciable Capital Assets, Net	<u>4,390,352</u>
 Total Assets	 <u>88,174,601</u>
Liabilities:	
Accounts Payable	19,379
Accrued Wages and Benefits	2,324,596
Retainage Payable	159,955
Accrued Interest Payable	51,636
Unearned Revenue	9,372,562
Claims Payable	21,136
Contracts Payable	1,539,789
Long-Term Liabilities:	
Due Within One Year	547,524
Due In More Than One Year	<u>13,146,726</u>
 Total Liabilities	 <u>27,183,303</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	19,457,048
Restricted for:	
Special Revenue	1,283,227
Debt Service	804,736
Capital Projects	39,213,159
Set-Aside	75,952
Unrestricted	<u>157,176</u>
 Total Net Assets	 <u>\$60,991,298</u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$9,038,425	\$707,909	\$431,081	\$0	(\$7,899,435)
Special	2,096,618	9,207	1,797,382	0	(290,029)
Vocational	442,669	0	128,661	0	(314,008)
Other	1,525,806	5,635	321,144	0	(1,199,027)
Support Services:					
Pupil	899,575	4,021	62,360	0	(833,194)
Instructional Staff	1,675,889	19,453	52,165	0	(1,604,271)
General Administration	35,370	0	0	0	(35,370)
School Administration	2,248,046	10,416	191,095	0	(2,046,535)
Fiscal	566,149	0	6,075	0	(560,074)
Operations and Maintenance	1,660,963	3,855	64,878	0	(1,592,230)
Pupil Transportation	1,412,769	0	51,570	24,760	(1,336,439)
Central	143,722	0	72,522	0	(71,200)
Operation of Non-Instructional Services	1,110,474	433,939	210,715	0	(465,820)
Extracurricular Activities	436,226	182,266	0	0	(253,960)
Interest and Fiscal Charges	692,200	0	0	0	(692,200)
Total Governmental Activities	\$23,984,901	\$1,376,701	\$3,389,648	\$24,760	(19,193,792)
General Revenues:					
Income Taxes					2,504,585
Property Taxes Levied for:					
General Purposes					5,308,046
Special Revenue Purposes					114,408
Debt Service Purposes					977,797
Grants and Entitlements not Restricted to Specific Programs					11,290,690
Unrestricted Contributions					4,925
Investment Earnings					889,435
Refunds and Reimbursements					14,703
Other Revenues					255,640
Total General Revenues					21,360,229
Change in Net Assets					2,166,437
Net Assets Beginning of Year, Restated					58,824,861
Net Assets End of Year					\$60,991,298

See accompanying notes to the basic financial statements.

Hillsboro City School District
Balance Sheet
Governmental Funds
June 30, 2007

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$1,936,323	\$11,700,028	\$2,539,618	\$16,175,969
Restricted Cash and Investments	75,952	159,955	0	235,907
Receivables:				
Taxes	9,649,341	0	1,193,731	10,843,072
Accounts	73	0	0	73
Intergovernmental	0	28,687,985	364,065	29,052,050
Interfund	147,183	0	7,586	154,769
Inventory	0	0	1,129	1,129
Total Assets	11,808,872	40,547,968	4,106,129	56,462,969
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	12,001	0	7,378	19,379
Accrued Wages and Benefits	2,021,504	0	303,092	2,324,596
Compensated Absences	94,000	0	0	94,000
Retainage Payable	0	159,955	0	159,955
Interfund Payable	0	0	154,769	154,769
Deferred Revenue	8,468,998	28,687,985	1,353,161	38,510,144
Contracts Payable	0	1,314,259	225,530	1,539,789
Total Liabilities	10,596,503	30,162,199	2,043,930	42,802,632
Fund Balances:				
Reserved for Encumbrances	197,665	2,471,180	145,522	2,814,367
Reserved for Inventory	0	0	1,129	1,129
Reserved for Property Tax Advances	168,471	0	36,074	204,545
Reserved for Set-Aside	75,952	0	0	75,952
Unreserved, Undesignated, Reported in:				
General Fund	770,281	0	0	770,281
Special Revenue Funds	0	0	984,720	984,720
Debt Service Funds	0	0	777,473	777,473
Capital Projects Funds	0	7,914,589	117,281	8,031,870
Total Fund Balances	1,212,369	10,385,769	2,062,199	13,660,337
Total Liabilities and Fund Balances	\$11,808,872	\$40,547,968	\$4,106,129	\$56,462,969

See accompanying notes to the basic financial statements.

Hillsboro City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2007

Total Governmental Fund Balance		\$13,660,337
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		31,741,207
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	254,093	
Intergovernmental	<u>28,883,489</u>	
		29,137,582
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		104,058
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(51,636)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(703,091)</u>	
		(703,091)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(12,897,159)</u>
Net Assets of Governmental Activities		<u><u>\$60,991,298</u></u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$7,853,046	\$0	\$1,096,534	\$8,949,580
Tuition and Fees	651,652	0	7,810	659,462
Investment Earnings	171,885	250,842	466,708	889,435
Intergovernmental	12,533,503	15,438,007	2,463,822	30,435,332
Extracurricular Activities	0	0	269,079	269,079
Charges for Services	0	0	433,939	433,939
Other Revenues	128,749	5,525	155,214	289,488
Total Revenues	21,338,835	15,694,374	4,893,106	41,926,315
Expenditures:				
Current:				
Instruction:				
Regular	8,214,074	0	621,183	8,835,257
Special	1,119,873	0	983,281	2,103,154
Vocational	529,076	0	0	529,076
Other	1,509,936	0	15,870	1,525,806
Support Services:				
Pupil	797,584	0	64,844	862,428
Instructional Staff	1,126,976	0	541,951	1,668,927
General Administration	35,370	0	0	35,370
School Administration	2,153,319	0	124,153	2,277,472
Fiscal	531,376	0	29,128	560,504
Operations and Maintenance	1,572,306	0	61,945	1,634,251
Pupil Transportation	1,424,169	0	15,805	1,439,974
Central	42,398	0	101,324	143,722
Operation of Non-Instructional Services	4,748	0	1,091,296	1,096,044
Extracurricular Activities	226,072	0	196,157	422,229
Capital Outlay	41,827	10,487,946	255,062	10,784,835
Debt Service:				
Principal Retirement	68,156	0	285,000	353,156
Interest and Fiscal Charges	8,047	0	716,917	724,964
Total Expenditures	19,405,307	10,487,946	5,103,916	34,997,169
Excess of Revenues Over (Under) Expenditures	1,933,528	5,206,428	(210,810)	6,929,146
Other Financing Sources (Uses):				
Issuance of Capital Leases	0	613,000	0	613,000
Transfers In	0	424,568	216,879	641,447
Transfers (Out)	(386,879)	0	(424,568)	(811,447)
Total Other Financing Sources (Uses)	(386,879)	1,037,568	(207,689)	443,000
Net Change in Fund Balance	1,546,649	6,243,996	(418,499)	7,372,146
Fund Balance Beginning of Year	(334,280)	4,141,773	2,480,698	6,288,191
Fund Balance End of Year	\$1,212,369	\$10,385,769	\$2,062,199	\$13,660,337

See accompanying notes to the basic financial statements.

Hillsboro City School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balance - Total Governmental Funds \$7,372,146

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

Governmental funds report capital asset additions 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 of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	10,982,287	
Depreciation Expense	<u>(365,687)</u>	10,616,600

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

Delinquent Property Taxes	(44,743)	
Intergovernmental	<u>(15,730,234)</u>	(15,774,977)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 353,156

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 32,764

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

Compensated Absences	<u>82,665</u>	82,665
----------------------	---------------	--------

The internal service fund used by management to charge back costs 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. 97,083

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (613,000)

Change in Net Assets of Governmental Activities	<u><u>\$2,166,437</u></u>
---	---------------------------

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Net Assets
Proprietary Fund
June 30, 2007

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$125,194</u>
Total Current Assets	<u>125,194</u>
Liabilities:	
Current Liabilities:	
Claims Payable	<u>21,136</u>
Total Current Liabilities	<u>21,136</u>
Net Assets:	
Unrestricted	<u>104,058</u>
Total Net Assets	<u>\$104,058</u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	Governmental Activities- Internal Service Fund
Operating Revenues:	
Charges for Services	\$176,225
Total Operating Revenues	176,225
Operating Expenses:	
Contractual Services	249,142
Total Operating Expenses	249,142
Income (Loss) Before Contributions and Transfers	(72,917)
Transfers In	170,000
Change in Net Assets	97,083
Net Assets Beginning of Year, Restated	6,975
Net Assets End of Year	\$104,058

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	<u>Governmental Activities- Internal Service Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$176,225
Cash Payments to Suppliers	<u>(248,553)</u>
Net Cash Provided (Used) by Operating Activities	<u>(72,328)</u>
Cash Flows from Noncapital Financing Activities:	
Payments from Other Funds	<u>170,000</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>170,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	97,672
Cash and Cash Equivalents Beginning of Year, Restated	<u>27,522</u>
Cash and Cash Equivalents End of Year	<u><u>125,194</u></u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(72,917)
Adjustments:	
Increase (Decrease) in Payables	<u>589</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$72,328)</u></u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$5,848	\$117,144
Total Assets	<u>5,848</u>	<u>117,144</u>
Liabilities:		
Accounts Payable	0	6,429
Other Liabilities	0	110,715
Total Liabilities	<u>0</u>	<u>\$117,144</u>
Net Assets:		
Held in Trust	<u>5,848</u>	
Total Net Assets	<u><u>\$5,848</u></u>	

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2007

	Private Purpose Trust
Additions:	
Donations	\$0
Total Additions	0
Deductions:	
Scholarships	0
Total Deductions	0
Change in Net Assets	0
Net Assets Beginning of Year	5,848
Net Assets End of Year	<u>\$5,848</u>

See accompanying notes to the basic financial statements.

HILLSBORO CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

1. DESCRIPTION OF THE DISTRICT

The Hillsboro City School District (District) operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 118 non-certificated personnel and 193 certificated teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the District's ADM is 2,650. It currently operates three elementary buildings housing grades K-5, one middle school building housing grade 6, and one Middle School/Senior High building housing grades 7-12. The Administrative Office is located at 338 West Main Street, Hillsboro, Ohio.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The District is associated with two organizations, which are defined as jointly governed organizations. These are the Hopewell Special Education Regional Resource Center and the Miami Valley Educational Computer Association. See Note 13 for more information on these organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its proprietary funds provided they do no conflict with or contradict GASB pronouncements. For proprietary funds, the District has elected not to follow subsequent private-sector guidance. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (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 activities.

Fiduciary funds (except agency funds) are reported using the economic resources measurement focus.

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. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

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

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

Classroom Facilities Fund – The classroom facilities fund is used to account for the receipts and expenditures related to the improvements of existing classroom facilities.

Proprietary Funds

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

Internal Service Fund – This fund is used to account for the financing of services provided by one department to other departments of the District on a cost-reimbursement basis.

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has a student activity agency fund which accounts for assets and liabilities generated by student managed activities.

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. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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, included 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. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the 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 year end: property taxes available for advance, grants, rent and student fees, and interest.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Expenses/Expenditures

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

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

EQUITY IN POOLED CASH AND INVESTMENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “Equity in Pooled Cash and Investments” on the financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

The District has invested funds in federal agency securities, money market funds, and the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2007. 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 Rule2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$171,885, \$250,842 to the classroom facilities fund and \$466,708 to other governmental funds.

For purposes of the statement of cash flows, the Internal Service fund portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the fund without prior notice or penalty.

INVENTORY

Inventories are presented at cost on a first in, first out basis and are expended/expensed when used. Inventory consists of food held for resale and consumable supplies.

CAPITAL ASSETS

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 two thousand dollars (\$2,000). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Buildings and Improvements	20 - 40 years
Equipment	3 - 15 years

RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization and amounts held in retainage for contractors.

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vested payment method. 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 are recognized when due. These related liabilities are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not Eligible	Per Board Policy	10-20 days
Termination Entitlement	Not Applicable	Per Board Policy	Per Board Policy
<u>Sick Leave</u>			
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	245 days	245 days	245 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Board Policy	Per Board Policy

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District's \$41,377,074 in restricted net assets, none was restricted by enabling legislation.

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

FUND BALANCE RESERVES

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

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 funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers within governmental activities are eliminated on the statement of activities.

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.

As a general rule the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

ESTIMATES

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

3. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies – Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current five year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to, passbook accounts.

Interim Monies – 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.

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 repayment of all public monies deposited with the institution.

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 obligation 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 division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- (6) The State Treasurer's investment pool (STAR Ohio);
- (7) Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days 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, debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand

At fiscal year end, the District had \$300 in undeposited cash on hand which is included on the statement of net assets and governmental balance sheet of the District as part of "Equity in Pooled Cash and Investments".

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by federal depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2007, the District's bank balance of \$17,207,751 was either covered by federal depository insurance or collateralized by the financial institution's public entity deposit pool in the manner described below.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

As of June 30, 2007, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Federal Home Loan Bank Discount Notes	\$377,675	0.04
Federal Home Loan Bank Bonds	170,000	0.18
Money Market Funds	10,542	0.00
Federal National Mortgage Association Discount Notes	500,017	0.27
STAROhio	<u>19,840</u>	0.11
Total Fair Value	<u>\$1,078,074</u>	
Portfolio Weighted Average Maturity		0.17

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The District limits their investments to securities in Federal Home Loan Bank Discount Notes, Federal Home Loan Bank Bonds, Money Market Funds, Federal National Mortgage Association Discount Notes, and STAROhio. Below are the credit ratings of the District's investments:

<u>Security</u>	<u>Rating Agency</u>	
	<u>Moody's</u>	<u>Standard & Poor's</u>
STAROhio	N/A	AAAm
Money Market Funds	Aaa	AAAm
Federal Home Loan Bank Bonds and Discount Notes	Aaa	AAA
Federal National Mortgage Association Discount Notes	Aaa	AAA

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The District's investment policy allows investments in Federal Agencies or Instrumentalities. Federal Home Loan Bank Discount Notes comprised 35% of the District's investments, Federal Home Loan Bank Bonds comprised 16% of the District's investments, Money Market Funds comprised 1% of the District's investments, Federal National Mortgage Association Discount Notes comprised 46% of the District's investments, and STAROhio comprised 2% of the District's investments.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

4. PROPERTY/INCOME TAXES

Property Tax

Real property taxes collected in 2007 were levied in April on the assessed values as of January 1, 2006, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). Each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

The tangible personal property tax will phase out over a four-year period starting with tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing and equipment first reportable on the 2006 and subsequent year returns is not subject to the personal property tax.

Real property taxes are payable annually or semi-annually. In 2007, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2007 and for which there is an enforceable legal claim. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2007. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2007, was \$168,471 for General Fund and \$36,074 for Other Governmental Funds, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2007 operations.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2007 <u>Amount</u>
Agricultural/Residential and Other Real Estate	\$264,657,680
Public Utility Personal	11,366,600
Tangible Personal Property	<u>22,790,971</u>
Total	<u>\$298,815,251</u>

Income Tax

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

5. RECEIVABLES

Receivables at June 30, 2007, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interfund. 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.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$1,522,499	\$0	\$0	\$1,522,499
Construction in Progress	<u>15,043,521</u>	<u>10,784,835</u>	<u>0</u>	<u>25,828,356</u>
Total Capital Assets, not being depreciated	16,566,020	10,784,835	0	27,350,855
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	5,449,590	0	0	5,449,590
Equipment	<u>6,374,351</u>	<u>197,452</u>	<u>0</u>	<u>6,571,803</u>
<i>Total Capital Assets, being depreciated:</i>	<u>11,823,941</u>	<u>197,452</u>	<u>0</u>	<u>12,021,393</u>
Totals at Historical Cost	<u><u>28,389,961</u></u>	<u><u>10,982,287</u></u>	<u><u>0</u></u>	<u><u>39,372,248</u></u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,465,573)	(90,664)	0	(2,556,237)
Equipment	<u>(4,799,781)</u>	<u>(275,023)</u>	<u>0</u>	<u>(5,074,804)</u>
Total Accumulated Depreciation	<u><u>(7,265,354)</u></u>	<u><u>(365,687)</u></u>	<u><u>0</u></u>	<u><u>(7,631,041)</u></u>
Governmental Activities Capital Assets, Net	<u><u>\$21,124,607</u></u>	<u><u>\$10,616,600</u></u>	<u><u>\$0</u></u>	<u><u>\$31,741,207</u></u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$141,574
Special	3,978
Vocational	1,821
Support Services:	
Pupil	1,381
Instructional Staff	13,482
School Administration	6,343
Fiscal	2,177
Operations and Maintenance	17,332
Pupil Transportation	158,213
Operation of Non-Instructional Services	5,389
Extracurricular Activities	13,997
Total Depreciation Expense	<u><u>\$365,687</u></u>

7. NOTES PAYABLE

During fiscal year 2005, the District issued one-year \$3,250,000 bond anticipation notes for the purpose of construction and renovation of buildings. This note was repaid with 2006 bond proceeds in fiscal year 2007. This note is backed by the full faith and credit of the District.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Debt Service Fund:				
2.85% Bond Anticipation Note	\$3,250,000	\$ 0	\$3,250,000	\$ 0

8. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>						
<u>General Obligation Bonds:</u>						
School Improvement						
2001 3.25%	12/01/28	\$9,175,000	\$ 0	\$240,000	\$8,935,000	\$250,000
School Improvement						
2006 2.85%	12/01/28	3,250,000	0	45,000	3,205,000	90,000
Capital Lease		<u>212,315</u>	<u>613,000</u>	<u>68,156</u>	<u>757,159</u>	<u>84,739</u>
Total Long Term Debt		12,637,315	613,000	353,156	12,897,159	424,739
Compensated Absences		<u>901,751</u>	<u>60,407</u>	<u>165,067</u>	<u>797,091</u>	<u>122,785</u>
Total Governmental Activities						
Long-Term Liabilities		<u>\$13,539,066</u>	<u>\$673,407</u>	<u>\$518,223</u>	<u>\$13,694,250</u>	<u>\$547,524</u>

General obligation bonds will be paid from the Debt Service fund. Capital leases will be paid from the General fund and Classroom Facilities fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2008	\$340,000	\$563,695	\$903,695
2009	350,000	551,156	\$901,156
2010	365,000	537,697	\$902,697
2011	375,000	523,228	\$898,228
2012	390,000	507,999	\$897,999
2013-2017	2,210,000	2,274,473	\$4,484,473
2018-2022	2,830,000	1,638,621	\$4,468,621
2023-2027	3,590,000	863,178	\$4,453,178
2028-2029	1,690,000	83,123	\$1,773,123
Total Payments	<u>\$12,140,000</u>	<u>\$7,543,170</u>	<u>\$19,683,170</u>

9. CAPITAL LEASES – LESEE DISCLOSURE

The capital lease proceeds that were recorded in the Classroom Facilities Fund relates to the construction of the Gymnasium in the School District. The School District is leasing the project from the Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. Columbus Regional Airport Authority assigned U.S. Bank as trustee. U.S. Bank deposited \$613,000 in the School District’s name for the construction of the project. Amounts will be paid to contractors by the School District as the work progresses. The School District will then submit invoices to the agent for reimbursement. The School District made an interest payment to U.S. Bank. The lease is renewable annually and expires in fiscal year 2032. The intention of the School District is to renew the lease annually.

The District will begin making principal payments in fiscal year 2008. The principal amount owed on the lease at year end is \$613,000.

The trustee entered into an Interest Rate Exchange Agreement with respect to the loan, locking in the rate at 4.17% plus an annual administrative fee.

The District also has a capital lease for buses.

The leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases”, which defines a capital lease generally as one that transfers benefits and risks of ownership to the leasee. Capital lease payments for the buses will be made from the General fund. Capital lease payments for the Gymnasium construction project will be paid from the Classroom Facilities fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Long-Term Debt</u>
2008	\$118,234
2009	117,586
2010	41,712
2011	41,996
2012	41,256
2013-2017	208,925
2018-2022	205,825
2023-2027	205,527
2028-2032	<u>207,733</u>
Total Minimum Lease Payments	1,188,794
Less: Amount Representing Interest	(414,123)
Less: Additional Program Cost Component	<u>(17,512)</u>
Present Value of Minimum Lease Payments	<u><u>\$757,159</u></u>

Capital assets acquired under capital leases in accordance with Statement of Financial Accounting Standards No. 13 are as follows:

Buildings and Improvements	\$613,000
Equipment	381,014

10. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (800) 878-5853 or by visiting SERS website at ohsers.org.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$502,452, \$473,892, and \$466,536 respectively; 48% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005.

STATE TEACHERS RETIREMENT SYSTEM

The District participates in State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090, or by visiting the STRS website at strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 Combined Plan offers features of both the DC Plan and 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for disability benefits. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,497,792, \$1,334,998, and \$1,394,016 respectively; 81% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005.

11. POST EMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits included hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$106,985 for fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .1 percent from fiscal year 2006. For the District, this amount equaled \$119,153 for fiscal year 2007. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2007, were \$127,615,614. At June 30, 2007, SERS had net assets available for payment of health care benefits of \$386.4 million. SERS has approximately 55,818 participants currently receiving health care benefits.

12. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2007.

LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

13. JOINTLY GOVERNED ORGANIZATIONS

The **Hopewell Special Education Regional Resource Center** (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school district to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of Superintendents from the seventeen school districts, plus county board of education, mental retardation and developmental disabilities, and joint vocational school superintendents, as well as three parents of handicapped children in the region. The Clinton County Board of Education acts as fiscal agent. Hopewell receives funding from contracts with each of the member school districts and Federal and State grants.

The **Miami Valley Educational Computer Association** (MVECA) is a jointly governed organization consisting of 27 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports MVECA and shares in a percentage equity based on the resources provided. MVECA is governed by a board of directors consisting of 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. To obtain financial information write to: Mr. Steven Sutcliffe, Treasurer, Greene County Career Center, 2960 West Enon Road, Xenia, Ohio 45385.

14. RISK MANAGEMENT

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 for automobile liability. The District also has umbrella liability coverage with a limit of \$1,000,000. There has been no significant change in coverage from the prior year. Settled claims have not exceeded coverage in any of the past 3 years.

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$38,971,364. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The District pays all appointed officials' bonds by statute.

Dental insurance is offered to employees through the Internal Service Fund. The claims liability of \$21,136 reported in the Internal Service Fund at fiscal year end is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the fiscal year follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
FY 2007	\$20,547	\$249,142	\$248,553	\$21,136
FY 2006	69,534	199,138	248,125	20,547
FY 2005	53,900	277,598	261,964	69,534

15. ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
Special Revenue Funds:	
Management Information Systems	\$792
Poverty Based Assistance	8,031
Title I	11,808
Food Service	157,011
Customer Service	2,558

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

16. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2007, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2006	(\$429,134)	\$0	\$75,952
Current Year Set-aside Requirement	421,694	421,694	0
Qualified Disbursements	(518,246)	(1,589,689)	0
Set-aside Reserve Balance as of June 30, 2007	<u>(\$525,686)</u>	<u>(\$1,167,995)</u>	<u>0</u>
Restricted Cash as of June 30, 2007	<u>\$0</u>	<u>\$0</u>	<u>\$75,952</u>
Carry Forward to FY 2008	<u>(\$525,686)</u>	<u>\$0</u>	<u>\$0</u>

Qualifying expenditures, including carry forward for textbook activity during the year were \$947,380, which exceeds the required set-aside reserve. Although the District had qualifying disbursements, during the fiscal year that reduced the capital maintenance set-aside amount below zero, only the amount for the textbook set-aside may be used to reduce the set-aside requirement of future years.

17. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2007, consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$147,183	\$0	\$0	\$386,879
Classroom Facilities Fund	0	0	424,568	0
Other Governmental Funds	7,586	154,769	216,879	424,568
Internal Service Fund	0	0	170,000	0
Total All Funds	\$154,769	\$154,769	\$811,447	\$811,447

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

18. FINANCIAL CONDITION

On September 30, 2005, the School District was placed into Fiscal Caution by the Ohio Department of Education. Under Revised Code Section 3316.031 (B) (1), the Ohio Department of Education will place a school district in Fiscal Caution if it is determined through the 5-year forecast that conditions exist that could result in fiscal watch or fiscal emergency. The School District has prepared a recovery plan which has been submitted to and approved by the Ohio Department of Education. The School District will be required to update their recovery plan if the School District experiences significant changes of events. As of June 30, 2007, the School District was still in Fiscal Caution.

19. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required due to an identification of errors in intergovernmental receivable for the Ohio School Facilities Commission Project and claims-related activity at June 30, 2006. This restatement had the following effect on net assets at June 30, 2006:

	Governmental Activities	Internal Service Fund
Net assets as previously reported	\$14,658,347	(\$20,547)
Restatements	<u>44,166,514</u>	<u>27,522</u>
Net assets, restated at June 30, 2006	<u>\$58,824,861</u>	<u>\$6,975</u>

20. SUBSEQUENT EVENT

In August, 2007, the School District entered into a \$200,000 OASBO Lease to build a bus garage.

REQUIRED SUPPLEMENTARY INFORMATION

Hillsboro City School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2007

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$7,181,510	\$7,655,250	\$7,655,520	\$270
Tuition and Fees	628,135	669,471	669,595	124
Investment Earnings	173,772	240,000	185,242	(54,758)
Intergovernmental	11,802,255	12,581,254	12,581,254	0
Other Revenues	124,328	120,693	132,534	11,841
Total Revenues	19,910,000	21,266,668	21,224,145	(42,523)
Expenditures:				
Current:				
Instruction:				
Regular	8,472,715	8,602,309	8,273,469	328,840
Special	1,131,684	1,354,420	1,105,071	249,349
Vocational	566,114	724,487	552,801	171,686
Other	1,543,185	1,306,709	1,506,895	(200,186)
Support Services:				
Pupil	818,006	855,753	798,770	56,983
Instructional Staff	1,149,376	1,255,505	1,122,347	133,158
General Administration	44,400	24,412	43,356	(18,944)
School Administration	2,127,266	2,278,804	2,077,241	201,563
Fiscal	543,271	558,131	530,495	27,636
Operations and Maintenance	1,690,054	1,821,620	1,650,310	171,310
Pupil Transportation	1,556,089	1,586,790	1,519,496	67,294
Central	43,419	300	42,398	(42,098)
Operation of Non-Instructional Services	19,915	65,855	19,447	46,408
Extracurricular Activities	231,516	245,580	226,072	19,508
Capital Outlay	44,410	4,000	43,366	(39,366)
Total Expenditures	19,981,420	20,684,675	19,511,534	1,173,141
Excess of Revenues Over (Under) Expenditures	(71,420)	581,993	1,712,611	1,130,618
Other financing sources (uses):				
Advances (Out)	(13,825)	(60,000)	(13,500)	46,500
Transfers (Out)	(396,196)	(15,000)	(386,879)	(371,879)
Total Other Financing Sources (Uses)	(410,021)	(75,000)	(400,379)	(325,379)
Net Change in Fund Balance	(481,441)	506,993	1,312,232	805,239
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	490,383	490,383	490,383	0
Fund Balance End of Year	\$8,942	\$997,376	\$1,802,615	\$805,239

See accompanying notes to the required supplementary information.

HILLSBORO CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Fiscal Year Ended June 30, 2007

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations 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 amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

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 on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2007.

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

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$1,546,649
Net Adjustment for Revenue Accruals	(114,690)
Net Adjustment for Expenditure Accruals	89,939
Encumbrances	<u>(209,666)</u>
Budget Basis	<u><u>\$1,312,232</u></u>

Hillsboro City School District
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
School Breakfast Program	O5PU	10.553	\$ 82,565	\$ -	\$ 82,565	\$ -
National School Lunch Program	LLP4	10.555	340,247	-	340,247	-
<i>Total Nutrition Cluster</i>			422,812	-	422,812	-
Food Donation	NA	10.550	-	47,088	-	47,088
Total United States Department of Agriculture			422,812	47,088	422,812	47,088
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education - Grants to States	6BSF	84.027	803,794	-	662,779	-
Special Education - Preschool Grants	PGS1	84.173	8,163	-	11,740	-
<i>Total Special Education Cluster</i>			811,957	-	674,519	-
Title I Grants to Local Educational Agencies	C1S1	84.010	727,361	-	712,050	-
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	17,801	-	11,892	-
Twenty-First Century Community Learning Centers	T1S1	84.287	304,000	-	284,805	-
State Grants for Innovative Programs	C2S1	84.298	2,139	-	2,020	-
Education Technology State Grants	TJS1	84.318	7,725	-	9,154	-
Improving Teacher Quality State Grants	TRS1	84.367	249,418	-	197,487	-
Hurricane Education Recovery	HR01	84.938	10,750	-	22,500	-
Total United States Department of Education			2,131,151	-	1,914,427	-
U.S. Department of Health and Human Services						
<i>Passed through the Ohio Department of Job and Family Services</i>						
Medical Assistance Program	NA	93.778	103,539	-	-	-
Total U.S. Department of Health and Human Services			103,539	-	-	-
Total Federal Financial Assistance			\$ 2,657,502	\$ 47,088	\$ 2,337,239	\$ 47,088

NA - Not Available

See accompanying notes to the schedule of federal awards expenditures

Hillsboro City School District
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2007

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DONATION

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE C – MEDICAL ASSISTANCE PROGRAM

As of July 1, 2005, the Community Alternative Funding System (CAFS) program (CFDA #93.778) no longer exists as a funding stream. All remittances subsequent to this date reflect settlements of past years. In fiscal year 2007, the District received \$103,539 in settlements related to expenditures made in prior years.

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsboro City School District (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 29, 2008. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These items are identified in the accompanying schedule of findings and questioned costs as items 2007-001 and 2007-002.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the item identified as 2007-001 to be a material weakness.

Members of the Board

Hillsboro City School District

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Page 2


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter which we reported to management of the District in a separate letter dated February 29, 2008.

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

This report is intended solely for the information and use of management, members of the Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

February 29, 2008

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

Compliance

We have audited the compliance of the Hillsboro City School District (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 are applicable to its major federal program for the year ended June 30, 2007. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

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

Members of the Board

Hillsboro City School District

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Page 2

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

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

We noted a certain matter which we reported to management of the District in a separate letter date February 29, 2008.

This report is intended solely for the information and use of the management, members of the Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

February 29, 2008

HILLSBORO CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

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

HILLSBORO CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

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

FINDING NUMBER 2007-001

Material Weakness

Material misstatements were identified during the audit which should have been prevented or detected by the District's internal controls over financial reporting. Misstatements were identified in the following areas:

- Improperly classified proceeds from a capital lease, recorded as miscellaneous revenues.
- Improperly recorded self-insurance activity in the prior and current years.
- Unrecorded intergovernmental receivables.

Prior period adjustments were required to correct beginning balances related to internal service fund, for misstated self-insurance activity, and for an unrecorded Ohio School Facilities Commission intergovernmental receivable.

The accompanying financial statements were adjusted to reflect the correction of the material misstatements. The District should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

Client's Response: Treasurer Anderson agrees with adjusting entries.

FINDING NUMBER 2007-002

Significant Deficiency – Student Activities

Sales potential forms were not properly completed and on file for all fund-raising activities. Sales potential forms should be utilized uniformly throughout the School District for all extracurricular events in order to provide controls over these activities where varying amounts of money are being collected by different individuals. The lack of these forms could result in an inability to account for amounts received by the fund-raising activity group and to reconcile such amounts to amounts paid into the School District Treasurer's office or to support expenditures made from the student activity account.

Additionally, budgets were not prepared at the beginning of the year by student activity organizations and submitted to the Board of Education for approval to document approval of the activity or proposed fund-raising activity.

The School District requires all student activity fund raisers to utilize sales potential forms. The School District should implement procedures to ensure that these forms are properly completed and approved. The forms should contain sufficient detail to document the source and amount of all receipts and to support related expenditures.

Prior to the performance of any financial transaction by an authorized student activity, the School District should also implement procedures to ensure that a budget is submitted and approved for the school year. The Board of Education should review and amend policies and procedures, as necessary, and monitor the adherence to such policies and procedures.

Client's Response: This is an item that did not get enough attention during the transition of our old Assistant Treasurer to the New Assistant Treasurer. We feel Martha has made great strides on getting this under control for FY2008. We agree with the recommendation.

HILLSBORO CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

HILLSBORO CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-1	Material Citation – Ohio Revised Code Section 5705.41(B) – Expenditures in Excess of Appropriations	Yes	



Mary Taylor, CPA
Auditor of State

HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 24, 2008