



Mary Taylor, CPA
Auditor of State

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Harrison Hills City School District
Harrison County
P.O. Box 356
422 Normal Street
Hopedale, Ohio 43976

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Hills City School District, Harrison 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 Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditures schedule is 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. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

May 29, 2008

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The discussion and analysis of the Harrison Hills City School District's (the "District") 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$604,686 which represents a 6.14% increase from 2006.
- General revenues accounted for \$15,762,936 in revenue or 79.82% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$3,986,079 or 20.18% of total revenues of \$19,749,015.
- The District had \$19,144,329 in expenses related to governmental activities; \$3,986,079 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,762,936 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$16,284,808 in revenues and \$16,284,782 in expenditures. During fiscal 2007, the general fund's fund balance increased \$26 from \$4,627,963 to \$4,611,579.
- The permanent improvement fund had \$464,928 in revenues and \$374,003 in expenditures. During fiscal year 2007, the permanent improvement fund's fund balance increased \$90,925.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?"

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-50 of this report.

The District as a Whole

Net assets at the beginning of the year were restated (see Note 3.A. to the basic financial statements for detail). The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities <u>2007</u>	Restated Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 14,451,193	\$ 13,959,224
Capital assets	<u>3,235,029</u>	<u>2,844,876</u>
Total assets	<u>17,686,222</u>	<u>16,804,100</u>
<u>Liabilities</u>		
Current liabilities	6,043,390	5,748,564
Long-term liabilities	<u>1,190,739</u>	<u>1,208,129</u>
Total liabilities	<u>7,234,129</u>	<u>6,956,693</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,132,365	2,695,406
Restricted	3,262,501	3,253,446
Unrestricted	<u>4,057,227</u>	<u>3,898,555</u>
Total net assets	<u>\$ 10,452,093</u>	<u>\$ 9,847,407</u>

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 \$10,452,093. Of this total, \$4,057,227 is unrestricted in use.

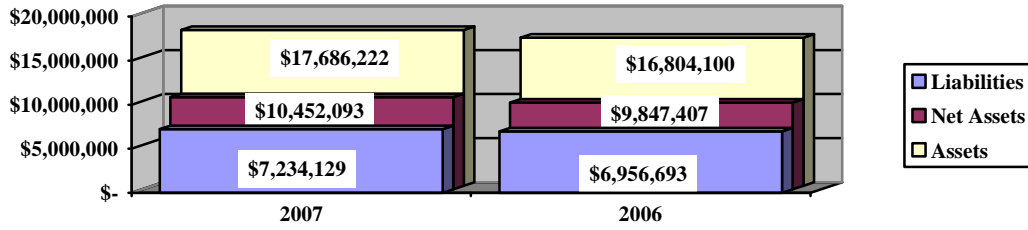
At year-end, capital assets represented 18.29% of total assets. Capital assets include land, construction in progress, land improvements, infrastructure, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$3,132,365. 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, \$3,262,501, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$4,057,227 may be used to meet the District's ongoing obligations to the students and creditors.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Governmental Activities



The table below shows the change in net assets for fiscal years 2007 and 2006.

	Change in Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 652,950	\$ 539,330
Operating grants and contributions	3,295,586	2,329,988
Capital grants and contributions	37,543	19,968
General revenues:		
Property taxes	5,008,524	4,509,183
Grants and entitlements	10,238,395	9,648,944
Investment earnings	470,488	309,014
Other	<u>45,529</u>	<u>59,747</u>
 Total revenues	 <u>19,749,015</u>	 <u>17,416,174</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2007</u>	<u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 8,741,254	\$ 7,015,281
Special	2,178,980	2,021,300
Vocational	341,583	310,688
Adult	500	-
Other	130,216	105,890
Support services:		
Pupil	944,088	840,241
Instructional staff	496,361	476,080
Board of education	177,446	135,382
Administration	1,474,970	1,421,936
Fiscal	505,602	490,890
Business	41,189	-
Operations and maintenance	1,174,248	1,312,676
Pupil transportation	1,361,750	1,374,676
Central	302,291	188,590
Food service operations	895,110	835,140
Operations of non-instructional services	46,907	60,418
Extracurricular activities	325,966	330,072
Interest and fiscal charges	<u>5,868</u>	<u>8,126</u>
Total expenses	<u>19,144,329</u>	<u>16,927,386</u>
Change in net assets	604,686	488,788
Net assets at beginning of year (restated)	<u>9,847,407</u>	<u>9,358,619</u>
Net assets at end of year	<u>\$ 10,452,093</u>	<u>\$ 9,847,407</u>

Governmental Activities

Net assets of the District's governmental activities increased \$604,686. Total governmental expenses of \$19,144,329 were offset by program revenues of \$3,986,079 and general revenues of \$15,762,936. Program revenues supported 20.82% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 77.20% of total governmental revenue.

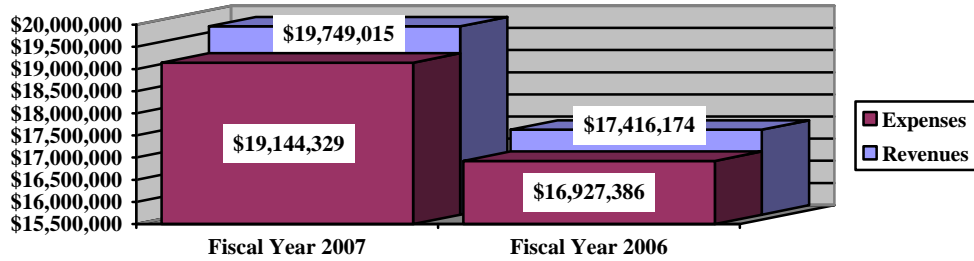
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,392,533 or 59.51% of total governmental expenses for fiscal 2007.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 8,741,254	\$ 8,038,290	\$ 7,015,281	\$ 6,288,718
Special	2,178,980	752,981	2,021,300	1,422,238
Vocational	341,583	189,139	310,688	310,688
Adult	500	500	-	-
Other	130,216	44,897	105,890	105,890
Support services:				
Pupil	944,088	679,560	840,241	550,339
Instructional staff	496,361	344,274	476,080	334,318
Board of education	177,446	177,446	135,382	135,382
Administration	1,474,970	1,385,060	1,421,936	1,312,833
Fiscal	505,602	505,602	490,890	490,890
Business	41,189	41,189	-	-
Operations and maintenance	1,174,248	1,174,159	1,312,676	1,312,676
Pupil transportation	1,361,750	1,274,399	1,374,676	1,349,457
Central	302,291	297,973	188,590	158,388
Food service operations	895,110	67,612	835,140	31,311
Operation of non-instructional	46,907	46,907	60,418	60,418
Extracurricular activities	325,966	132,394	330,072	166,428
Interest and fiscal charges	5,868	5,868	8,126	8,126
Total expenses	<u>\$ 19,144,329</u>	<u>\$ 15,158,250</u>	<u>\$ 16,927,386</u>	<u>\$ 14,038,100</u>

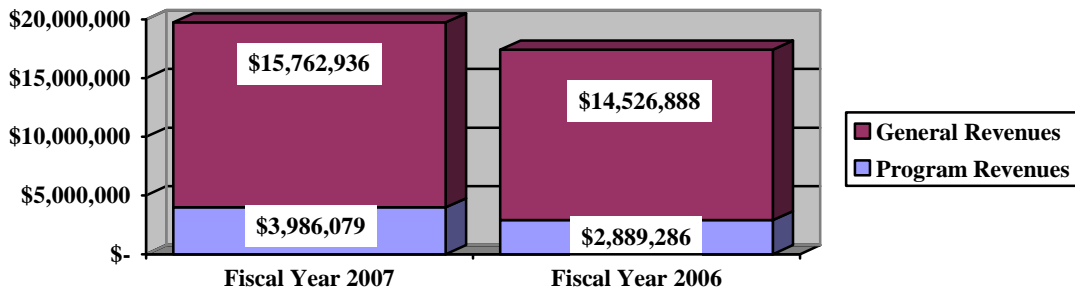
**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 79.23% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.18%.

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$5,991,763, which is lower than last year's total of \$6,016,906. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance June 30, 2006	Increase (Decrease)	Percentage Change
General	\$ 4,611,579	\$ 4,627,963	\$ (16,384)	(0.35) %
Permanent Improvement	1,059,769	968,844	90,925	9.38 %
Other Governmental	<u>320,415</u>	<u>420,099</u>	<u>(99,684)</u>	(23.73) %
Total	<u>\$ 5,991,763</u>	<u>\$ 6,016,906</u>	<u>\$ (25,143)</u>	(0.42) %

An analysis of the general fund revenues and expenditures is provided in the section below. The decrease in the fund balances of the other governmental funds is primarily due to a fund balance decrease of \$66,770 in the food service fund. The decrease was a result of food service operation expenditures exceeding charges for services and grant revenues in the food service fund.

General Fund

The District's general fund balance decreased \$16,384. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

	<u>2007</u>	<u>2006</u>	<u>Increase</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,595,680	\$ 4,207,119	\$ 388,561	9.24 %
Earnings on investments	354,775	236,827	117,948	49.80 %
Extracurricular	28,904	11,510	17,394	151.12 %
Intergovernmental	11,107,775	9,608,386	1,499,389	15.61 %
Other revenues	<u>197,674</u>	<u>40,348</u>	<u>157,326</u>	389.92 %
 Total	 <u>\$ 16,284,808</u>	 <u>\$ 14,104,190</u>	 <u>\$ 2,180,618</u>	 15.46 %
	<u>2007</u>	<u>2006</u>	<u>Increase</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Expenditures</u>				
Instruction	\$ 9,824,637	\$ 8,028,792	\$ 1,795,845	22.37 %
Support services	5,778,281	5,319,941	458,340	8.62 %
Non-instructional services	42,504	35,968	6,536	18.17 %
Extracurricular activities	137,318	136,257	1,061	0.78 %
Facilities acquisition and construction	449,368	71,833	377,535	525.57 %
Debt service	<u>52,674</u>	<u>52,674</u>	<u>-</u>	- %
 Total	 <u>\$ 16,284,782</u>	 <u>\$ 13,645,465</u>	 <u>\$ 2,639,317</u>	 19.34 %

Overall revenues in the general fund increased \$2,180,618 or 15.46%. The most significant increase was in the area of intergovernmental revenues. Intergovernmental revenues increased \$1,499,389 or 15.61%. This increase is a result of the District no longer net school foundation receipts. Tax revenues increased 9.24%. This increase can be attributed to an increased amount of taxes available for advance by the County at fiscal year end. Other revenues increased \$157,326 or 389.92%. The increase in other revenues is due to increased tuition receipts as a result of the District no longer net open enrollment receipts with other revenue line items. The increase in earnings on investments is due to the District receiving better interest rates on investments. In addition, the District is now recording the revenues and expenditures separately.

Expenditures of the general fund increased \$2,639,317 or 19.34%. The most significant increase was in the area of instructional expenditures which increased \$1,795,845 or 22.37%. The increase in regular instructional expenditures is due mainly to the District accounting for open enrollment and community school expenditures. In the past, the District would net the school foundation receipt into intergovernmental revenues. The District now records open enrollment receipts into tuition revenues and payments for enrollment into other school districts into regular instruction.

Permanent Improvement Fund

The permanent improvement fund had \$464,928 in revenues and \$374,003 in expenditures. During fiscal year 2007, the permanent improvement fund's fund balance increased \$90,925 from \$968,844 to \$1,059,769.

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.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

During the course of fiscal 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$15,203,246 and final budgeted revenues and other financing sources were \$15,203,246. Actual revenues and other financing sources for fiscal 2007 were \$16,792,390. This represents a \$1,589,144 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$17,248,220, which were increased to \$18,170,507 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$17,376,032, which were \$794,475 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

The District restated capital assets as described in Note 3.A to the basic financial statements. At the end of fiscal year 2007, the District had \$3,235,029 invested in land, construction in progress, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	(Restated) 2006
Land	\$ 15,067	\$ 15,067
Construction in progress	-	43,430
Land improvements	72,610	81,146
Building and improvements	2,284,133	1,888,981
Furniture and equipment	469,521	459,367
Vehicles	393,698	356,885
Total	\$ 3,235,029	\$ 2,844,876

The overall increase in capital assets of \$390,153 is due to capital outlays of \$644,675 exceeding depreciation expense of \$260,009 and the disposal of \$195,712 in capital assets exceeding their associated accumulated depreciation by \$180,424 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

The District had \$102,664 in a capital lease liability at June 30, 2007, of this amount; \$47,504 is due within one year. The District had no other debt outstanding at June 30, 2007. See Note 9 to the basic financial statements for additional information on the District's capital leases.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Current Financial Related Activities

As the Board of Education continues to accomplish and set new goals, stated in the District's Continuous Improvement Plan (CIP), meeting the needs of the students continues to be their priority. The CIP has been instrumental in helping the District to plan financially in order to improve academics, maintain buildings and grounds, and other areas related to the District's operations. In order to achieve these goals, it has been important that a high standard of accountability be continued and prudent fiscal management maintained.

Presently, the District is able to end fiscal year 2008 and fiscal year 2009 in the black. The District's expenditures have begun to exceed their revenue. The Board of Education and Administration will continue to closely monitor its revenues and expenditures. This will be done in order to help bring expenditures more in line with the revenue. However, if this can not be accomplished, the District is looking at a negative fund balance at the end of fiscal year 2010. The forecast is based on the most current information and with a projection of what funding will be received from the State in the next biennium budget. Therefore, the status of this forecast could very easily change. The District relies heavily on property taxes and the state foundation program. Therefore, the newly enacted legislation, HB66, has a significant impact on the district's revenue. This HB changes the way Tangible Personal Property is taxed, in addition to other changes to the state's foundation program. If the changes occur in the manner that are predicted, the District should be able to close its books, without a deficit, through fiscal year 2009. However, in the next biennium budget changes could occur that would change the forecast positively or negatively. In addition, if any more unfunded state mandates are required, this would impact the District negatively.

School funding is still a major concern for all school districts. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system. They deemed this system to be neither "adequate" nor "equitable." The Court still has not accepted any state developed school-funding plan. Therefore, the District is unable to determine what effect, if any, that a state approved plan will have on the District.

The Ohio School Facilities Commission (OSFC) sent a team into the District to evaluate the District's school buildings in 2002. It was determined that all the buildings needed replaced. The District began working with the OSFC and was approved, as an exceptional needs District. The District would have been required to provide approximately 35% while the state would provide approximately 65% of the funds needed to replace the District's buildings. However, the District was not successful on its attempt on the ballot, November 2003, to get a bond levy passed for the District's share. We once again began working with the OSFC and developed a plan that combined three programs for funding. This time an income tax was placed on the ballot in March of 2004 to fund the District's portion of the project. However, it was not successful. The focus of the Board of Education had to switch to getting the permanent improvement levy renewed. Since we were successful in renewing the permanent improvement levy during FY 05, the board and administration once again began working with the OSFC. The District was approved in 2006 to enter into the building project under the Classroom Facilities Assistance Program (CFAP). This time the state will fund 75% while the district will need to pass a bond issue to fund 25% of the project. However, after three attempts on the ballot, the district was unsuccessful. Presently, the Board of Education has decided to no longer try to pass a bond issue to replace our out dated buildings. Instead, the focus will be to make necessary improvements to enhance the safety and learning environment of its students and staff. Funds will be utilized from the District's permanent improvement fund and the general capital improvement set aside fund. At the close of FY 07, the contract with the certificated staff expired. The negotiation process was not successful. As a result, a strike by the certificated staff began on October 1, 2007. After a ten day strike the members of the Harrison Hills Teacher Association voted to ratify a new three-year contract that will give a 2 percent increase in salary for 2008 and 2009 and a 2.5 percent increase in 2010.

The Board of Education and Administration will continue to carefully and prudently manage the District's resources in order to continue to meet the growing needs of its students. At the same time, the financial condition of the District will be monitored closely.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

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 Ms. Roxane Harding, Treasurer, Harrison Hills City School District, P.O. Box 356 - Normal Street, Hopedale, Ohio 43976-0356.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,694,928
Cash with fiscal agent	1,838,887
Investments	2,540,791
Receivables:	
Taxes	4,776,348
Accounts	5,316
Intergovernmental	382,642
Accrued interest	40,341
Prepayments	46,772
Materials and supplies inventory	125,168
Capital assets:	
Land	15,067
Depreciable capital assets, net	3,219,962
Capital assets, net.	3,235,029
 Total assets.	 17,686,222
 Liabilities:	
Accounts payable.	195,319
Contracts payable	20,775
Accrued wages and benefits	1,456,895
Pension obligation payable.	349,454
Intergovernmental payable	135,448
Unearned revenue	3,551,237
Claims payable	334,262
Long-term liabilities:	
Due within one year.	143,348
Due within more than one year	1,047,391
Total liabilities	7,234,129
 Net Assets:	
Invested in capital assets, net of related debt.	3,132,365
Restricted for:	
Capital projects	1,127,930
Endowment:	
Expendable	106,549
Nonexpendable	289,934
Federally funded programs	32,644
State funded programs	11,048
Other purposes	1,694,396
Unrestricted.	4,057,227
Total net assets	\$ 10,452,093

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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	\$ 8,741,254	\$ 152,227	\$ 550,737	\$ -	\$	(8,038,290)
Special	2,178,980	472	1,425,527	-	-	(752,981)
Vocational	341,583	-	152,444	-	-	(189,139)
Adult	500	-	-	-	-	(500)
Other	130,216	-	85,319	-	-	(44,897)
Support services:						
Pupil	944,088	-	264,528	-	-	(679,560)
Instructional staff	496,361	4,057	148,030	-	-	(344,274)
Board of education	177,446	-	-	-	-	(177,446)
Administration	1,474,970	-	89,910	-	-	(1,385,060)
Fiscal	505,602	-	-	-	-	(505,602)
Business	41,189	-	-	-	-	(41,189)
Operations and maintenance	1,174,248	89	-	-	-	(1,174,159)
Pupil transportation	1,361,750	-	49,808	37,543	-	(1,274,399)
Central	302,291	1,643	2,675	-	-	(297,973)
Operation of non-instructional services:						
Food service operations	895,110	318,864	508,634	-	-	(67,612)
Other non-instructional services	46,907	-	-	-	-	(46,907)
Extracurricular activities	325,966	175,598	17,974	-	-	(132,394)
Interest and fiscal charges	5,868	-	-	-	-	(5,868)
Total governmental activities	<u>\$ 19,144,329</u>	<u>\$ 652,950</u>	<u>\$ 3,295,586</u>	<u>\$ 37,543</u>		<u>(15,158,250)</u>
General Revenues:						
Property taxes levied for:						
General purposes					4,602,037	
Capital projects					406,487	
Grants and entitlements not restricted to specific programs					10,238,395	
Investment earnings					470,488	
Miscellaneous					45,529	
					15,762,936	
Total general revenues					<u>15,762,936</u>	
Change in net assets					604,686	
Net assets at beginning of year (restated)					<u>9,847,407</u>	
Net assets at end of year					<u>\$ 10,452,093</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,905,058	\$ 889,978	\$ 285,812	\$ 3,080,848
Investments	2,067,963	186,563	286,265	2,540,791
Receivables:				
Taxes	4,347,799	428,549	-	4,776,348
Accounts	2,064	-	3,252	5,316
Intergovernmental	1,945	-	380,697	382,642
Accrued interest	32,043	2,837	5,461	40,341
Interfund loans	188,726	-	-	188,726
Due from other funds	734	-	-	734
Prepayments	46,460	-	312	46,772
Materials and supplies inventory	115,164	-	10,004	125,168
Restricted assets:				
Equity in pooled cash and cash equivalents	1,614,080	-	-	1,614,080
Total assets	<u>\$ 10,322,036</u>	<u>\$ 1,507,927</u>	<u>\$ 971,803</u>	<u>\$ 12,801,766</u>
Liabilities:				
Accounts payable	\$ 137,357	\$ 19,108	\$ 38,854	\$ 195,319
Contracts payable	20,775	-	-	20,775
Accrued wages and benefits	1,225,731	-	231,164	1,456,895
Compensated absences payable	27,035	-	-	27,035
Pension obligation payable	291,412	-	58,042	349,454
Intergovernmental payable	115,014	-	20,434	135,448
Interfund loan payable	-	-	188,726	188,726
Due to other funds	-	-	734	734
Deferred revenue	702,896	68,050	113,434	884,380
Unearned revenue	3,190,237	361,000	-	3,551,237
Total liabilities	<u>5,710,457</u>	<u>448,158</u>	<u>651,388</u>	<u>6,810,003</u>
Fund Balances:				
Reserved for encumbrances	392,453	137,626	28,478	558,557
Reserved for materials and supplies inventory	115,164	-	10,004	125,168
Reserved for prepayments	46,460	-	312	46,772
Reserved for property tax unavailable for appropriation	456,263	-	-	456,263
Reserved for BWC refunds	73,694	-	-	73,694
Reserved for capital acquisition	901,656	-	-	901,656
Reserved for textbooks	601,187	-	-	601,187
Reserved for school bus purchases	37,543	-	-	37,543
Reserved for unclaimed monies	2,207	-	-	2,207
Reserved for endowment	-	-	289,934	289,934
Unreserved:				
Designation for budget stabilization	78,109	-	-	78,109
Undesignated (deficit), reported in:				
General fund	1,906,843	-	-	1,906,843
Special revenue funds	-	-	(114,121)	(114,121)
Capital projects funds	-	922,143	81	922,224
Permanent fund	-	-	105,727	105,727
Total fund balances	<u>4,611,579</u>	<u>1,059,769</u>	<u>320,415</u>	<u>5,991,763</u>
Total liabilities and fund balances	<u>\$ 10,322,036</u>	<u>\$ 1,507,927</u>	<u>\$ 971,803</u>	<u>\$ 12,801,766</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$	5,991,763
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,235,029
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Taxes	\$	768,848	
Interest		2,920	
Intergovernmental revenue		112,612	
Total			884,380
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			1,504,625
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		1,061,040	
Capital lease obligation		102,664	
Total			(1,163,704)
Net assets of governmental activities		\$	10,452,093

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES OF FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 4,595,680	\$ 405,330	\$ -	\$ 5,001,010
Tuition.	126,365	-	-	126,365
Charges for services.	-	-	314,575	314,575
Earnings on investments.	354,775	17,286	38,995	411,056
Extracurricular.	28,904	-	152,985	181,889
Classroom materials and fees	25,691	-	52	25,743
Other local revenues.	45,618	-	26,577	72,195
Intergovernmental - State	11,107,775	42,312	620,943	11,771,030
Intergovernmental - Federal.	-	-	1,777,358	1,777,358
Total revenues.	<u>16,284,808</u>	<u>464,928</u>	<u>2,931,485</u>	<u>19,681,221</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,003,771	120,945	552,330	8,677,046
Special.	1,436,073	2,520	747,206	2,185,799
Vocational.	340,708	-	-	340,708
Adult/Continuing	-	-	500	500
Other	44,085	-	86,131	130,216
Support services:				
Pupil.	682,127	-	267,822	949,949
Instructional staff	341,835	-	167,505	509,340
Board of education	177,446	-	-	177,446
Administration.	1,365,860	-	89,526	1,455,386
Fiscal	491,498	15,616	-	507,114
Operations and maintenance.	1,196,389	9,435	-	1,205,824
Pupil transportation	1,286,232	107,255	25,477	1,418,964
Central.	236,894	31,123	9,531	277,548
Operation of non-instructional services:				
Food service operations	-	-	893,439	893,439
Other non-instructional services	42,504	2,782	-	45,286
Extracurricular activities.	137,318	-	188,648	325,966
Facilities acquisition and construction	449,368	84,327	4,162	537,857
Debt service:				
Principal retirement	46,806	-	-	46,806
Interest and fiscal charges	5,868	-	-	5,868
Total expenditures	<u>16,284,782</u>	<u>374,003</u>	<u>3,032,277</u>	<u>19,691,062</u>
Net change in fund balances	26	90,925	(100,792)	(9,841)
Fund balances at beginning of year	4,627,963	968,844	420,099	6,016,906
Increase (decrease) in reserve for inventory	(16,410)	-	1,108	(15,302)
Fund balances at end of year.	<u>\$ 4,611,579</u>	<u>\$ 1,059,769</u>	<u>\$ 320,415</u>	<u>\$ 5,991,763</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds \$ (9,841)

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

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

Capital asset additions	\$	665,450	
Current year depreciation		(260,009)	
Total			405,441

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (15,288)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (15,302)

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

Taxes		7,514	
Interest		(8,139)	
Intergovernmental		(269)	
Total			(894)

Repayments of capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 46,806

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (61,904)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 255,668

Change in net assets of governmental activities \$ 604,686

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES OF
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,108,157	\$ 3,515,000	\$ 4,593,172	\$ 1,078,172
Tuition	126,365	126,365	126,365	\$ -
Earnings on investments	288,296	300,268	322,333	22,065
Extracurricular	23,412	24,298	26,176	1,878
Classroom materials and fees	22,916	23,364	25,621	2,257
Other local revenues	38,367	38,784	42,897	4,113
Intergovernmental - State	<u>10,062,469</u>	<u>10,625,889</u>	<u>11,105,830</u>	<u>479,941</u>
Total revenues	<u>14,669,982</u>	<u>14,653,968</u>	<u>16,242,394</u>	<u>1,588,426</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,001,033	8,133,021	8,054,497	78,524
Special	1,405,515	1,428,139	1,416,815	11,324
Vocational	339,482	348,895	342,212	6,683
Other	45,958	95,016	46,327	48,689
Support services:				
Pupil	714,909	743,019	720,657	22,362
Instructional staff	338,919	395,112	341,644	53,468
Board of education	145,998	205,065	147,172	57,893
Administration	1,391,824	1,417,285	1,403,015	14,270
Fiscal	462,473	471,257	466,191	5,066
Operations and maintenance	1,309,734	1,466,392	1,320,264	146,128
Pupil transportation	1,381,904	1,422,160	1,393,015	29,145
Central	239,698	276,684	241,625	35,059
Operation of non-instructional services	41,911	42,394	42,248	146
Extracurricular activities	142,653	150,082	143,800	6,282
Facilities acquisition and construction	572,131	856,021	576,731	279,290
Total expenditures	<u>16,534,142</u>	<u>17,450,542</u>	<u>16,656,213</u>	<u>794,329</u>
Deficiency of revenues under expenditures	<u>(1,864,160)</u>	<u>(2,796,574)</u>	<u>(413,819)</u>	<u>2,382,755</u>
Other financing sources (uses):				
Transfers in	456,727	510,650	510,650	-
Transfers (out)	(506,577)	(510,650)	(510,650)	-
Advances in	32,758	36,625	36,625	-
Advances (out)	(187,222)	(188,727)	(188,727)	-
Refund of prior year receipt	(20,279)	(20,588)	(20,442)	146
Sale of assets	2,434	2,003	2,721	718
Total other financing sources (uses)	<u>(222,159)</u>	<u>(170,687)</u>	<u>(169,823)</u>	<u>864</u>
Net change in fund balance	(2,086,319)	(2,967,261)	(583,642)	2,383,619
Fund balance at beginning of year	4,647,207	4,647,207	4,647,207	-
Prior year encumbrances appropriated	987,623	987,623	987,623	-
Fund balance at end of year	<u>\$ 3,548,511</u>	<u>\$ 2,667,569</u>	<u>\$ 5,051,188</u>	<u>\$ 2,383,619</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENT.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 1,838,887
Total assets	1,838,887
Liabilities:	
Claims payable	334,262
Total liabilities	334,262
Net assets:	
Unrestricted.	1,504,625
Total net assets	\$ 1,504,625

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 3,145,218
Total operating revenues	<u>3,145,218</u>
Operating expenses:	
Fringe benefits	123,551
Claims.	<u>2,834,687</u>
Total operating expenses	<u>2,958,238</u>
Operating income.	<u>186,980</u>
Nonoperating revenues:	
Interest revenue.	<u>68,688</u>
Total nonoperating revenues	<u>68,688</u>
Change in net assets.	255,668
Net assets at beginning of year	<u>1,248,957</u>
Net assets at end of year	<u><u>\$ 1,504,625</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 3,145,218
Cash payments for fringe benefits.	(123,551)
Cash payments for claims.	<u>(2,808,394)</u>
Net cash provided by operating activities	<u>213,273</u>
Cash flows from investing activities:	
Interest received	<u>68,688</u>
Net cash provided by investing activities	<u>68,688</u>
Net increase in cash and cash equivalents	281,961
Cash and cash equivalents at beginning of year. . .	<u>1,556,926</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,838,887</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 186,980
Changes in assets and liabilities:	
Increase in claims payable	<u>26,293</u>
Net cash provided by operating activities	<u><u>\$ 213,273</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 82,628
Receivables:	
Accounts	300
Total assets	\$ 82,928
Liabilities:	
Accounts payable	\$ 15,986
Due to students	66,942
Total liabilities	\$ 82,928

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Harrison Hills City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by State statute and/or federal guidelines.

The District was established in 1971 through the consolidation of existing land areas and school districts. The District serves an area approximately 386 square miles. It is located primarily in Harrison County, however small portions of the District are located in Carroll County, Tuscarawas County, Belmont County, and Jefferson County. The District is the 269th largest in the State of Ohio (among 876 public and community school districts) in terms of enrollment. It is staffed by 103 non-certificated employees, 164 certificated employees, and 11 administrators who provide services to 1,987 students and other community members. The District currently operates 8 instructional buildings and 1 administrative building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

Belmont Harrison Joint Vocational School

The Belmont Harrison Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the nine participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Belmont Harrison Joint Vocational School, Treasurer's Office, at 110 Fox/Shannon Place, St. Clairsville, Ohio 43950.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

Permanent Improvement Fund - The permanent improvement capital projects fund is used to account for all transactions related to acquiring, constructing, or improving capital facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

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

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

FIDUCIARY FUND

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2007 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Certificate of Estimated Resources issued for fiscal year 2007.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the fund level for all other funds, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2007; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2007, investments were limited to federal agency securities, certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 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 Rule 2a7 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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$354,775, which includes \$56,281 assigned from other funds.

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Infrastructure	75 years
Buildings and improvements	20 - 75 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, any employee with a continuing contract is considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves / Designations

The District records reserves for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of materials and supplies, prepayments, tax revenue unavailable for appropriation, Bureau of Workers' Compensation (BWC) refunds, capital acquisition, textbooks, unclaimed monies and endowment. The reserve for property tax advance unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute. The amount set-aside by the Board of Education for budget stabilization is reported as a designation of fund balance in the general fund.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

M. Operating Revenues and Expenses

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist of monies restricted by State statute for budget stabilization, BWC refunds, textbooks, school bus purchases, capital acquisition and unclaimed monies.

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

O. Prepayments

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

P. Estimates

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

Q. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a reserve for BWC refunds, textbook reserve and capital acquisition reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Net Assets

The District received an appraisal of its capital assets during fiscal year 2007, which resulted in a restatement of net assets of the governmental activities at July 1, 2006. The adjustment for capital assets had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets, June 30, 2006	\$ 10,498,942
Adjustment for capital assets	<u>(651,535)</u>
Restated net assets, July 1, 2006	<u><u>\$ 9,847,407</u></u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 53,417
District Managed Activities	42,952
EMIS	31
Title VI-B	7,703
Title I	19,379
Drug Free Schools	3,777
Preschool	5,496
Improving Teacher Quality	5,960

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**HARRISON HILLS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2007 was \$1,838,887.

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits \$928,062. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$1,209,105 of the District's bank balance of \$1,628,713 was exposed to custodial risk as discussed below, while \$419,608 was covered by the Federal Deposit Insurance Corporation.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

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

Investment type	Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
STAR Ohio	\$ 3,849,494	\$ 3,849,494	\$ -	\$ -	\$ -
FHLB	644,438	-	544,688	-	99,750
FHLMC	1,696,946	599,142	-	449,208	648,596
FNMA	199,407	99,469	99,938	-	-
	<u>\$ 6,390,285</u>	<u>\$ 4,548,105</u>	<u>\$ 644,626</u>	<u>\$ 449,208</u>	<u>\$ 748,346</u>

The weighted average maturity of investments is .37 years.

Interest Rate Risk: To the extent possible, the District will attempt to match its investment with anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to maturity. Unless matched to a specific obligation or debt of the District, the District will not invest directly in securities maturing more than two years from the date of settlement.

Credit Risk: The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, 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. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,849,494	60.24
FHLB	644,438	10.08
FHLMC	1,696,946	26.56
FNMA	199,407	3.12
	<u>\$ 6,390,285</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 928,062
Investments	6,390,285
Cash with fiscal agent	<u>1,838,887</u>
Total	<u>\$ 9,157,234</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 9,074,606
Agency fund	82,628
Total	<u>\$ 9,157,234</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances for the year ended June 30, 2007, consisted of the following due to/from other funds, as reported on the fund financial statements:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 734	\$ -
Nonmajor Governmental Funds:		
District Managed Student Activity	<u>-</u>	<u>734</u>
Total	<u>\$ 734</u>	<u>\$ 734</u>

The primary purpose of due to/from other funds is to represent amounts owed between funds for goods or service provided. Due to/from other funds are eliminated between governmental funds for reporting in the statement of net assets. All amounts are to be repaid within one year.

Amounts due to/from other funds are eliminated for reporting on the statement of net assets.

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 188,726

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Harrison, Carroll, Tuscarawas, Belmont and Jefferson Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County Auditors by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$456,263 in the general fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$453,755 in the general fund.

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:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 173,942,850	84.83	\$ 171,605,640	83.90
Public Utility Personal	16,619,280	8.10	16,709,220	8.17
Tangible Personal Property	<u>14,506,240</u>	<u>7.07</u>	<u>16,220,090</u>	<u>7.93</u>
Total	<u>\$ 205,068,370</u>	<u>100.00</u>	<u>\$ 204,534,950</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$37.75		\$37.75	

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 4,776,348
Accounts	5,316
Intergovernmental	382,642
Accrued interest	<u>40,341</u>
Total	<u>\$ 5,204,647</u>

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

NOTE 8 - CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated at July 1, 2006 (See Note 3.A. for detail). The restatement had the following effect on capital assets as previously reported:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>July 1, 2006</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 10,561	\$ 4,506	\$ 15,067
Construction in progress	<u>43,430</u>	<u>-</u>	<u>43,430</u>
Total capital assets, not being depreciated	<u>53,991</u>	<u>4,506</u>	<u>58,497</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	-	373,963	373,963
Buildings and improvement	8,333,205	(1,526,534)	6,806,671
Furniture and equipment	715,074	928,976	1,644,050
Vehicles	1,360,454	15,187	1,375,641
Infrastructure	<u>23,230</u>	<u>4,644</u>	<u>27,874</u>
Total capital assets, being depreciated	<u>10,431,963</u>	<u>(203,764)</u>	<u>10,228,199</u>
<i>Less: accumulated depreciation</i>	<u>(6,989,543)</u>	<u>(452,277)</u>	<u>(7,441,820)</u>
Governmental activities capital assets, net	<u>\$ 3,496,411</u>	<u>\$ (651,535)</u>	<u>\$ 2,844,876</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

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

	Restated Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2007</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 15,067	\$ -	\$ -	\$ 15,067
Construction in progress	43,430	445,935	(489,365)	-
Total capital assets, not being depreciated	<u>58,497</u>	<u>445,935</u>	<u>(489,365)</u>	<u>15,067</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	373,963	-	-	373,963
Buildings and improvements	6,806,671	489,365	-	7,296,036
Infrastructure	27,874	-	-	27,874
Furniture and equipment	1,644,050	93,917	(58,663)	1,679,304
Vehicles	1,375,641	125,598	(137,049)	1,364,190
Total capital assets, being depreciated	<u>10,228,199</u>	<u>708,880</u>	<u>(195,712)</u>	<u>10,741,367</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(292,817)	(8,536)	-	(301,353)
Buildings and improvements	(4,917,690)	(94,213)	-	(5,011,903)
Infrastructure	(27,874)	-	-	(27,874)
Furniture and equipment	(1,184,683)	(82,180)	57,080	(1,209,783)
Vehicles	(1,018,756)	(75,080)	123,344	(970,492)
Total accumulated depreciation	<u>(7,441,820)</u>	<u>(260,009)</u>	<u>180,424</u>	<u>(7,521,405)</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 105,678
Special	17,850
Vocational	3,174

Support Services:

Pupil	1,076
Instructional staff	2,107
Administration	9,322
Fiscal	596
Operations and maintenance	4,652
Pupil transportation	78,786
Central	24,107
Food service operations	<u>12,661</u>
Total depreciation expense	<u>\$ 260,009</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the District entered into capitalized leases for phone equipment, copier equipment and a modular classroom. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of buildings and improvements and furniture and equipment have been capitalized in the amount of \$311,958. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$133,695, leaving a current book value of \$178,263. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2007 fiscal year totaled \$46,806 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 50,994
2009	42,594
2010	<u>14,198</u>
Total minimum lease payments	107,786
Less: Amount representing interest	<u>(5,122)</u>
Total	<u>\$ 102,664</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2007, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/07</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Capital lease obligation	\$ 149,470	\$ -	\$ (46,806)	\$ 102,664	\$ 47,504
Compensated absences	<u>1,058,659</u>	<u>197,808</u>	<u>(168,392)</u>	<u>1,088,075</u>	<u>95,844</u>
Total long-term obligations, governmental activities	<u>\$ 1,208,129</u>	<u>\$ 197,808</u>	<u>\$ (215,198)</u>	<u>\$ 1,190,739</u>	<u>\$ 143,348</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid, which are primarily the general fund, food service fund (a nonmajor governmental fund) and Title I fund (a nonmajor governmental fund).

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$16,753,703 and an unvoted debt margin of \$186,152.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees, office staff, administrative staff, and certified employees have the following sick leave and severance policies:

<u>Employee Status</u>	<u>Maximum Allowable Sick Leave Balance (Days)</u>	<u>Paid at 1/4 of Unused Sick Leave Balance</u>	<u>Paid at 1/8 of Unused Sick Leave Balance</u>	<u>Total Allowable Maximum Severance (Days)</u>
Classified	279	First 133 Days	Any Balance Over 133 Days	52
Office Staff	324	First 142 Days	Any Balance Over 142 Days	58
Administrative	335	First 160 Days	Any Balance Over 160 Days	62
Certified	335	First 144 Days	Any Balance Over 144 Days	60

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has contracted with Ohio School Plan via Harcum-Hyre Insurance Agency for property and inland marine coverage; fleet insurance; and professional liability coverage. Coverage is provided as follows:

<u>Description</u>	<u>Amount</u>
Building and Contents - replacement cost (\$1,000 deductible)	\$40,170,484
Inland Marine Coverage (\$1,000 deductible)	468,000
Boiler and Machinery (\$1,000 deductible)	40,170,484
Crime Insurance	50,000
Musical Instruments	314,300

Coverage provided by Indiana Insurance is as follows:

General Liability	
Per occurrence	1,000,000
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.) The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participants individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Employee Group Medical, Dental, Vision and Life Insurance

Medical/surgical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 49 school districts within the OME-RESA consortium, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf. The claims liability of \$334,262 reported in the internal service fund at June 30, 2007, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2007	\$ 307,969	\$ 2,834,687	\$ (2,808,394)	\$ 334,262
2006	310,960	2,807,251	(2,810,242)	307,969

NOTE 13 - PENSION PLANS

A. 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 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$215,089, \$199,889, and \$252,283, respectively; 52.28% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$102,638 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**HARRISON HILLS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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 a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$953,396, \$948,936, and \$1,006,424, respectively; 82.94% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$162,693 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$5,466 made by the District and \$8,634 made by plan members.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include 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.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$73,338 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 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.

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 .10 percent from fiscal year 2006. 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. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$104,696 to fund health care benefits, including the surcharge.

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 the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
- (d) Investments are reported as fair value (GAAP basis) rather than cost (budget basis).

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (583,642)
Net adjustment for revenue accruals	42,414
Net adjustment for expenditure accruals	(616,192)
Net adjustment for other sources/uses	169,823
Adjustment for encumbrances	<u>987,623</u>
GAAP basis	<u>\$ 26</u>

NOTE 16 - CONTINGENCIES

A. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 17 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>BWC Refunds</u>
Set-aside balance as of June 30, 2006	\$ 560,820	\$1,126,259	\$ 73,694
Current year set-aside requirement	288,705	288,705	-
Qualifying disbursements	<u>(248,338)</u>	<u>(513,308)</u>	<u>-</u>
 Total	 <u>\$ 601,187</u>	 <u>\$ 901,656</u>	 <u>\$ 73,694</u>
 Balance carried forward to FY 2008	 <u>\$ 601,187</u>	 <u>\$ 901,656</u>	 <u>\$ 73,694</u>

The District also had \$37,543 restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2007 follows:

Amount restricted for textbooks	\$ 601,187
Amount restricted for capital maintenance	901,656
Amount restricted for BWC refunds	73,694
Amount restricted for school bus purchases	<u>37,543</u>
 Total restricted assets	 <u>\$ 1,614,080</u>
 Amount designated for budget stabilization	 <u>\$ 78,109</u>

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	03-PU-07	10.550		\$15,134		\$15,134
Nutrition Cluster:						
National School Lunch Program	04-PU-07	10.555	\$284,405		\$284,405	
National School Breakfast Program	05-PU-07	10.553	115,062		115,062	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>399,467</u>		<u>399,467</u>	
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States						
Title VI-B Flow Through	6B-SF-06	84.027	54,437		74,419	
	6B-SF-07		508,623		509,462	
Total Title VI-B			<u>563,060</u>		<u>583,881</u>	
Special Education - Preschool Grant	PG-S1-06	84.173	3,077		1,867	
	PG-S1-07		22,003		25,455	
Total Special Education - Preschool Grant			<u>25,080</u>		<u>27,322</u>	
Total Special Education Cluster			<u>588,140</u>		<u>611,203</u>	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-06	84.010	68,459		82,505	
	C1-S1-07		444,896		454,883	
Total Title I			<u>513,355</u>		<u>537,388</u>	
Inovative Education Strategies	C2-S1-06	84.298	1,096		848	
	C2-S1-07		5,312		6,656	
Total Innovative Education Strategies			<u>6,408</u>		<u>7,504</u>	
Drug-Free Schools Grant	DR-S1-07	84.186	6,922		5,322	
Title II A - Improving Teacher Quality	TR-S1-06	84.367	17,056		19,691	
	TR-S1-07		120,225		131,311	
Total Title II A			<u>137,281</u>		<u>151,002</u>	
Title II D - Eduation Technology State Grants	TJ-S1-06	84.318	3,129		161	
	TJ-S1-07		3,908		4,889	
Total Title II D			<u>7,037</u>		<u>5,050</u>	
Total Department of Education			<u>1,259,143</u>		<u>1,317,469</u>	
U.S. Department of Health and Human Services						
<i>Passed Through Ohio Department of MRDD:</i>						
Community Alternative Funding System (CAFS)	FY 05	93.778	29,818		29,818	
Department of Health and Human Services			29,818		29,818	
Total Federal Financial Assistance			<u>\$1,688,428</u>	<u>\$15,134</u>	<u>\$1,746,754</u>	<u>\$15,134</u>

The notes to the Federal Awards Expenditures Schedule are an integral part of this schedule.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

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 value of the commodities received.



Mary Taylor, CPA

Auditor of State

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

Harrison Hills City School District
Harrison County
P.O. Box 356
422 Normal Street
Hopedale, Ohio 43976

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purposes 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 consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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 material weaknesses. However, of the significant deficiencies described above, we believe findings 2007-001 and 2007-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated May 29, 2008.

Compliance and Other Matters

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

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated May 29, 2008.

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

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



Mary Taylor, CPA
Auditor of State

May 29, 2008



Mary Taylor, CPA

Auditor of State

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

Harrison Hills City School District
Harrison County
P.O. Box 356
422 Normal Street
Hopedale, Ohio 43976

To the Board of Education:

Compliance

We have audited the compliance of Harrison Hills City School District, Harrison County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Harrison Hills City School District, Harrison County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

In a separate letter to the District's management dated May 29, 2008, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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 intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

May 29, 2008

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	UNQUALIFIED
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	YES
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	YES
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	NO
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	NO
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	UNQUALIFIED
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	NO
<i>(d)(1)(vii)</i>	Major Programs (list):	84.010 Title 1 84.367 Improving Teacher Quality
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	YES

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

FINDING NUMBER 2007-001

Significant Deficiency/Material Weakness

The District did not accurately post the amounts of estimated resources as certified by the budget commission to the budgetary accounting system. The Budget Commission certified estimated resources totaling \$19,797,060; however, the district's ledgers reflected estimated resources of \$21,783,153, an overstatement of \$1,986,093. Adjustments were posted to the budgetary accounting system and are reflected in the accompanying financial statements.

As the original certificate and amendments establish the amounts available for expenditures in the District and the budgetary accounting system provides the process by which the District controls what is available, the amounts certified by the County Budget Commission should be posted accurately to the budgetary accounting system.

Failure to accurately post the estimated resources to the system could result in overspending and negative cash balances. To effectively control the budgetary cycle and to maintain accountability over District expenditures and revenues, the District Treasurer should post to the ledgers, on a timely basis, estimated resources as certified by the budget commission. The Board should also monitor budget versus actual revenue to ensure amended certificates of resources have been properly posted.

Officials' Response

This finding pertains to the accurate recording of estimated resources. The amounts that have been certified as estimated resources will be posted accurately and timely to the budgetary system.

FINDING NUMBER 2007-002

Significant Deficiency/Material Weakness

Sound accounting practices require maintaining a capital asset accounting system that incorporates sufficient information to enable the District to prepare financial statements in accordance with governmental accounting standards. The District's capital asset policy states, in part, that the District shall conduct a complete inventory every five years, by physical count, of all District owned equipment and supplies. All equipment purchased with a cost of \$5,000 or more with an estimated useful life of five years or more is to be tagged and made part of the equipment inventory. A computer generated listing of all equipment is to be maintained by the treasurer's office.

The District's formal management controls are not working effectively to track and report capital assets. A complete and accurate listing of capital assets is necessary for the preparation of fairly stated financial statements. The District utilized the computerized capital asset inventory system; however, the listing was not maintained to provide consistently accurate capital asset information.

The capital asset inventory listing presented for audit had numerous errors, including the listing of some assets that were deleted in prior years, incorrect accumulated depreciation, depreciation expense, asset useful life, and inaccurate acquisition date and asset classifications. While this did not result in errors that were material to the financial statements, material misstatements could occur.

The District should review the information that has been entered in to the computerized inventory system for accuracy. Depreciation expenses should be recalculated, and the various errors in useful life, acquisition dates and classifications should be corrected. In addition, the District should ensure asset additions and deletions are reported in the proper period.

A properly designed capital asset reporting system would ensure District assets are accurately reported, would provide the District with documentation for insurance claims and would help to protect assets from misappropriation or misuse.

Officials Response:

This finding pertains to the capital asset accounting system. The district is utilizing state software for its fixed assets. However, this system was just implemented during FY 2007. Due to the turnover in personnel in charge of inventory, problems were found. The treasurer and the new administrative secretary are working closely to help improve the record keeping of fixed assets. During 2007 and 2008, new procedures have been put in place, as well as additional training. It is anticipated that fixed asset records will continually improve.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Finding for Recovery - \$400.12 overpayment of compensation	Yes	



Mary Taylor, CPA
Auditor of State

HARRISON HILLS CITY SCHOOL DISTRICT

HARRISON 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
AUGUST 7, 2008**