

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2007

MARJORIE TRAVIS, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Hillsdale Local School District
485 TR 1902
Jeromesville, OH 44840

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 21, 2007

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Education
Hillsdale Local School District
485 Twp. Rd. 1902
Jeromesville, OH 44840-9754

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Hillsdale Local School District, Ashland County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Hillsdale Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hillsdale Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

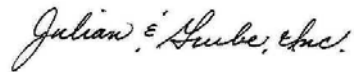
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of Hillsdale Local School District, as of June 30, 2007, and the respective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

As disclosed in Note 3B, the District has reported a prior period adjustment to properly report capital assets (specifically accumulated depreciation) and nets assets at June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007, on our consideration of Hillsdale Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Hillsdale Local School District
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 16, 2007

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

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

The management's discussion and analysis of the Hillsdale Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 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 \$1,511,565 which represents a 127.82% increase from 2006 (as restated – see Note 3.B).
- General revenues accounted for \$9,269,689 in revenue or 84.42% of all revenues. Program specific revenues, in the form of charges for services and sales, grants and contributions accounted for \$1,710,559 or 15.58% of total revenues of \$10,980,248.
- The District had \$9,468,683 in expenses related to governmental activities; only \$1,710,559 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 \$9,269,689 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$9,598,412 in revenues and other financing sources and \$8,895,572 in expenditures and other financing uses. During fiscal 2007, the general fund's fund balance increased \$702,840 from \$172,214 to \$875,054.

Using the Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* 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 employee benefits self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Reporting the District's Fiduciary Responsibilities

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-50 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. Certain amounts for 2006 have been restated as described in Note 3.B. and Note 9 to the financial statements. The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities 2007	Restated Governmental Activities 2006
<u>Assets</u>		
Current and other assets	\$ 6,200,205	\$ 5,327,745
Capital assets, net	1,629,112	1,721,915
Total assets	7,829,317	7,049,660
<u>Liabilities</u>		
Current liabilities	4,027,600	4,757,106
Long-term liabilities	1,107,620	1,110,022
Total liabilities	5,135,220	5,867,128
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,428,762	1,503,892
Restricted	167,259	172,933
Unrestricted (deficit)	1,098,076	(494,293)
Total net assets	\$ 2,694,097	\$ 1,182,532

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 \$2,694,097.

At year-end, capital assets represented 20.81% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$1,428,762. 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.

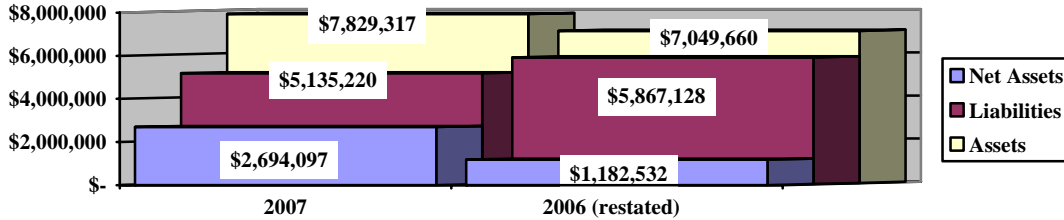
A portion of the District's net assets, \$167,259, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,098,076 may be used to meet the District's ongoing obligations to the students and creditors.

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

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

The graph below reports the District's governmental activities assets, liabilities and net assets at June 30, 2007 and 2006. The amounts for 2006 have been restated as described in Note 3.B. to the financial statements.

Governmental Activities



The table below shows the change in net assets for fiscal year 2007 and 2006. Net assets have been restated as described in Note 3.B. to the financial statements.

	Change in Net Assets	
	Governmental Activities 2007	Governmental Activities 2006
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 834,891	\$ 756,924
Operating grants and contributions	852,317	944,743
Capital grants and contributions	23,351	21,429
General revenues:		
Property taxes	4,832,882	3,749,135
Grants and entitlements	4,288,633	4,121,353
Investment earnings	100,221	45,902
Other	47,953	81,274
Total revenues	10,980,248	9,720,760

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

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

	Change in Net Assets	
	Governmental Activities 2007	Governmental Activities 2006
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,168,945	\$ 4,457,927
Special	671,896	637,591
Vocational	336,993	328,552
Other	280,501	240,381
Support services:		
Pupil	450,071	531,244
Instructional staff	298,232	396,669
Board of education	27,683	30,387
Administration	801,107	850,458
Fiscal	317,710	290,808
Operations and maintenance	638,986	585,765
Pupil transportation	720,251	694,639
Central	9,410	9,000
Operation of non-instructional services:		
Food service operations	343,763	345,189
Other non-instructional services	982	989
Extracurricular activities	391,433	413,178
Interest and fiscal charges	10,720	12,545
Total expenses	9,468,683	9,825,322
Change in net assets	1,511,565	(104,562)
Net assets at beginning of year (restated)	1,182,532	1,287,094
Net assets at end of year	\$ 2,694,097	\$ 1,182,532

Governmental Activities

Net assets of the District's governmental activities increased \$1,511,565. Total governmental expenses of \$9,468,683 were offset by program revenues of \$1,710,559 and general revenues of \$9,269,689. Program revenues supported 18.07% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, grants and entitlements. These revenue sources represent 83.07% of total governmental revenue. Real estate property is reappraised every six years.

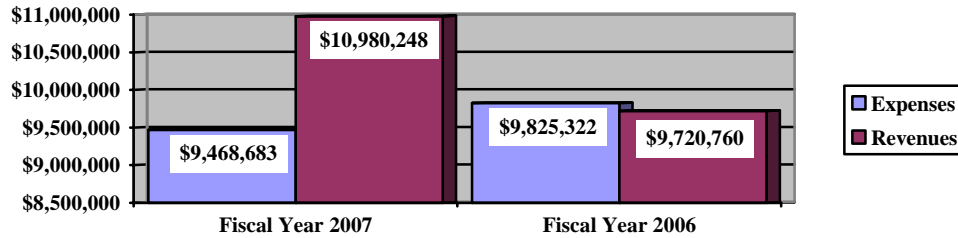
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,458,335 or 57.65% of total governmental expenses for fiscal 2007.

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

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

The graph below presents the District's governmental activities revenue and expenses for fiscal year 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	\$ 4,168,945	\$ 3,761,045	\$ 4,457,927	\$ 4,039,286
Special	671,896	345,680	637,591	230,561
Vocational	336,993	271,770	328,552	264,677
Other	280,501	280,501	240,381	240,381
Support services:				
Pupil	450,071	333,299	531,244	396,317
Instructional staff	298,232	252,412	396,669	357,634
Board of education	27,683	27,683	30,387	28,387
Administration	801,107	685,974	850,458	770,607
Fiscal	317,710	317,560	290,808	290,808
Operations and maintenance	638,986	636,654	585,765	585,765
Pupil transportation	720,251	673,722	694,639	687,632
Central	9,410	54	9,000	-
Food service operations	343,763	(42,594)	345,189	(46,416)
Operations of non-instructional services	982	982	989	989
Extracurricular activities	391,433	202,662	413,178	243,053
Interest and fiscal charges	<u>10,720</u>	<u>10,720</u>	<u>12,545</u>	<u>12,545</u>
Total expenses	<u>\$ 9,468,683</u>	<u>\$ 7,758,124</u>	<u>\$ 9,825,322</u>	<u>\$ 8,102,226</u>

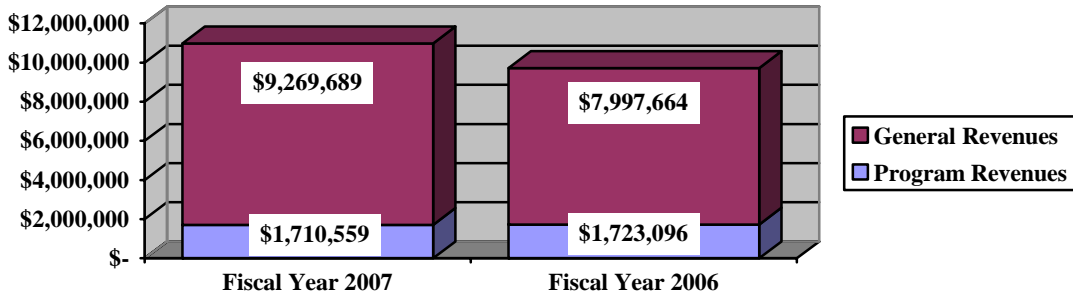
The dependence upon tax and other general revenues for governmental activities is apparent, 85.36% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.93%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are by far the primary support for District's students.

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

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

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

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$991,114, which is higher than last year's total of \$293,775. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	Increase <u>(Decrease)</u>
General	\$ 875,054	\$ 172,214	\$ 702,840
Other Governmental	<u>116,060</u>	<u>121,561</u>	<u>(5,501)</u>
Total	<u>\$ 991,114</u>	<u>\$ 293,775</u>	<u>\$ 697,339</u>

General Fund

The District's general fund's fund balance increased by \$702,840. This increase is primarily the result of increased property tax revenues coupled with only a slight increase in expenditures.

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

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

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

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,581,463	\$ 3,607,498	27.00 %
Tuition	290,982	285,216	2.02 %
Earnings on investments	62,774	45,902	36.76 %
Intergovernmental	4,597,140	4,432,410	3.72 %
Other revenues	<u>65,247</u>	<u>32,525</u>	100.61 %
Total	<u>\$ 9,597,606</u>	<u>\$ 8,403,551</u>	14.21 %
<u>Expenditures</u>			
Instruction	5,569,373	5,421,508	2.73 %
Support services	3,097,969	3,077,961	0.65 %
Operation of non-instructional services	982	989	(0.71) %
Extracurricular activities	198,855	216,469	(8.14) %
Debt service	<u>177</u>	<u>41,970</u>	(99.58) %
Total	<u>\$ 8,867,356</u>	<u>\$ 8,758,897</u>	1.24 %

Tax revenues increased 27.00%. This increase is the result of a larger amount of taxes being collected by the County Auditors and being available as an advance at fiscal year end. These amounts available for advance at year end are recorded as revenue. The amounts available as an advance at year-end can vary depending upon when tax bills are sent out by the County Auditor (see Note 6). The amounts that were available for advance in the general fund at June 30, 2007 and 2006 were \$1,125,092 and \$669,931, respectively. Earnings on investments increased 36.76% due to greater interest rates earned on investments. Other revenue increased 100.61% mainly due to an increase in classroom materials and fees and increased donations. Instructional expenditures increased 2.73% which can be attributed to normal and customary increases in wages and benefits. Debt service decreased due to the District paying off a capital lease agreement. All other revenues and expenditures were comparable to the prior year.

General Fund Budgeting Highlights

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

During the course of fiscal 2007, the District amended its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$8,722,617 and \$9,214,563 respectively. Actual revenues and other financing sources for fiscal 2007 was \$9,215,086. This represents a \$523 increase over final budgeted revenues.

General fund original and final appropriations (appropriated expenditures and other financing uses) were \$8,939,041 and \$9,050,986 respectively. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$8,962,187, which was \$88,799 less than the final budget appropriations.

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

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$1,629,112 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and textbooks. The entire amount is reported in governmental activities. Certain amounts in 2006 have been restated as described in Note 3.B. and Note 9 to the financial statements. The following table shows fiscal 2007 balances compared to 2006:

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

	<u>Governmental Activities</u>	
	<u>2007</u>	(Restated) <u>2006</u>
Land	\$ 51,970	\$ 51,970
Land improvements	173,332	173,515
Building and improvements	720,671	774,614
Furniture and equipment	392,906	444,443
Vehicles	241,127	201,060
Infrastructure	1,460	2,018
Textbooks	<u>47,646</u>	<u>74,295</u>
Total	<u>\$ 1,629,112</u>	<u>\$ 1,721,915</u>

Total additions to capital assets for 2007 were \$122,973. Disposals to capital assets for 2007 were \$1,815 (net of accumulated depreciation). Depreciation expense for fiscal 2007 was \$213,961. Overall, capital assets of the District decreased \$92,803. See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2007, the District had \$200,350 in energy conservation notes outstanding. Of this total, \$20,000 is due within one year and \$180,350 is due within greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Capital lease obligation	\$ -	\$ 173
Energy conservation notes	<u>200,350</u>	<u>217,850</u>
Total	<u>\$ 200,350</u>	<u>\$ 218,023</u>

See Note 10 to the basic financial statements for additional information on the District's debt administration.

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

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

Current Financial Related Activities

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

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, Districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 44% of revenues for governmental activities for the Hillsdale Local District in year 2007.

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

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward Districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the District. With the approval of the biennial budget, effective July 1, 2006, the State revenue is not anticipated to grow. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

Contacting the District's Financial Management

This financial report is designed to provide our citizen's 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 Marjorie Travis, Treasurer at 485 TR 1902, Jeromesville, Ohio, e-mail hill_travis@tccsa.net.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 914,606
Cash with fiscal agent	1,165,997
Receivables:	
Taxes	3,952,027
Accounts	6,975
Intergovernmental	30,028
Prepayments	114,035
Materials and supplies inventory	5,807
Inventory held for resale	10,730
Capital assets:	
Land	51,970
Depreciable capital assets, net	1,577,142
Total capital assets, net	<u>1,629,112</u>
 Total assets	 <u>7,829,317</u>
Liabilities:	
Accounts payable	19,634
Accrued wages and benefits	965,439
Pension obligation payable	180,442
Intergovernmental payable	41,136
Claims payable	293,196
Unearned revenue	2,527,753
Long-term liabilities:	
Due within one year	173,340
Due in more than one year	934,280
 Total liabilities	 <u>5,135,220</u>
Net Assets:	
Invested in capital assets, net of related debt . .	1,428,762
Restricted for:	
Capital projects	134,278
Locally funded programs	1,406
Federally funded programs	2,694
Student activities	17,946
School bus purchases	10,935
Unrestricted	<u>1,098,076</u>
 Total net assets	 <u>\$ 2,694,097</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 4,168,945	\$ 367,092	\$ 28,392	\$ 12,416	\$ (3,761,045)
Special	671,896	-	326,216	-	(345,680)
Vocational	336,993	-	65,223	-	(271,770)
Other	280,501	-	-	-	(280,501)
Support services:					
Pupil	450,071	-	116,772	-	(333,299)
Instructional staff	298,232	-	45,820	-	(252,412)
Board of education	27,683	-	-	-	(27,683)
Administration	801,107	30,879	84,254	-	(685,974)
Fiscal	317,710	-	150	-	(317,560)
Operations and maintenance	638,986	250	2,082	-	(636,654)
Pupil transportation	720,251	60	35,534	10,935	(673,722)
Central	9,410	-	9,356	-	(54)
Operation of non-instructional services:					
Food service operations	343,763	248,979	137,378	-	42,594
Other non-instructional services	982	-	-	-	(982)
Extracurricular activities	391,433	187,631	1,140	-	(202,662)
Interest and fiscal charges	10,720	-	-	-	(10,720)
Total governmental activities	<u>\$ 9,468,683</u>	<u>\$ 834,891</u>	<u>\$ 852,317</u>	<u>\$ 23,351</u>	<u>(7,758,124)</u>
General Revenues:					
Property taxes levied for:					
					4,768,166
					64,716
					4,288,633
					100,221
					47,953
					<u>9,269,689</u>
					1,511,565
					<u>1,182,532</u>
					<u>\$ 2,694,097</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 739,226	\$ 164,445	\$ 903,671
Receivables:			
Taxes	3,843,419	108,608	3,952,027
Accounts	3,088	3,887	6,975
Intergovernmental	-	30,028	30,028
Interfund loan receivable	62,396	-	62,396
Prepayments	108,126	5,909	114,035
Materials and supplies inventory	4,591	1,216	5,807
Inventory held for resale	-	10,730	10,730
Restricted assets:			
Equity in pooled cash and cash equivalents	10,935	-	10,935
Total assets	\$ 4,771,781	\$ 324,823	\$ 5,096,604
Liabilities:			
Accounts payable	\$ 18,809	\$ 825	\$ 19,634
Accrued wages and benefits	915,563	49,876	965,439
Compensated absences payable	35,565	3,337	38,902
Pension obligation payable	168,218	12,224	180,442
Interfund loan payable	-	62,396	62,396
Intergovernmental payable	40,245	891	41,136
Deferred revenue	370,942	12,881	383,823
Unearned revenue	2,347,385	66,333	2,413,718
Total liabilities	3,896,727	208,763	4,105,490
Fund Balances:			
Reserved for encumbrances	124,109	31,884	155,993
Reserved for materials and supplies inventory	4,591	11,946	16,537
Reserved for property tax unavailable for appropriation	1,125,092	31,793	1,156,885
Reserved for prepayments	108,126	5,909	114,035
Reserved for school bus purchases	10,935	-	10,935
Unreserved, undesignated (deficit), reported in:			
General fund	(497,799)	-	(497,799)
Special revenue funds	-	(31,289)	(31,289)
Capital projects funds	-	65,817	65,817
Total fund balances	875,054	116,060	991,114
Total liabilities and fund balances	\$ 4,771,781	\$ 324,823	\$ 5,096,604

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

Total governmental fund balances		\$	991,114
<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.			1,629,112
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Intergovernmental	\$	2,399	
Delinquent property taxes		381,424	
Total		383,823	383,823
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.			758,766
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation notes		(200,350)	
Compensated absences payable		(868,368)	
Total		(1,068,718)	(1,068,718)
Net assets of governmental activities		\$	2,694,097

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,581,463	\$ 115,067	\$ 4,696,530
Tuition.	290,982	-	290,982
Transportation fees	60	-	60
Charges for services.	-	248,979	248,979
Earnings on investments.	62,774	-	62,774
Extracurricular.	-	189,597	189,597
Classroom materials and fees	17,943	33,009	50,952
Contributions and donations	19,959	11,778	31,737
Other local revenues.	27,285	55,030	82,315
Intergovernmental - Intermediate	-	9,657	9,657
Intergovernmental - State	4,596,999	60,977	4,657,976
Intergovernmental - Federal	141	483,009	483,150
Total revenue	<u>9,597,606</u>	<u>1,207,103</u>	<u>10,804,709</u>
Expenditures:			
Current:			
Instruction:			
Regular	4,327,190	105,627	4,432,817
Special.	601,833	107,430	709,263
Vocational.	359,849	3,944	363,793
Other	280,501	-	280,501
Support services:			
Pupil.	389,667	116,291	505,958
Instructional staff	229,955	48,259	278,214
Board of education	37,844	-	37,844
Administration.	720,109	119,228	839,337
Fiscal	327,435	3,655	331,090
Operations and maintenance.	627,249	8,026	635,275
Pupil transportation	765,710	64,216	829,926
Central.	-	9,410	9,410
Operation of non-instructional services:			
Food service operations	-	381,428	381,428
Other non-instructional services	982	-	982
Extracurricular activities.	198,855	202,910	401,765
Facilities acquisition and construction	-	42,180	42,180
Debt service:			
Principal retirement	173	17,500	17,673
Interest and fiscal charges	4	10,716	10,720
Total expenditures	<u>8,867,356</u>	<u>1,240,820</u>	<u>10,108,176</u>
Excess of revenues over (under) expenditures	<u>730,250</u>	<u>(33,717)</u>	<u>696,533</u>
Other financing sources (uses):			
Sale of assets.	806	-	806
Transfers in	-	28,216	28,216
Transfers (out).	(28,216)	-	(28,216)
Total other financing sources (uses)	<u>(27,410)</u>	<u>28,216</u>	<u>806</u>
Net change in fund balances	702,840	(5,501)	697,339
Fund balances at beginning of year.	<u>172,214</u>	<u>121,561</u>	<u>293,775</u>
Fund balances at end of year	<u>\$ 875,054</u>	<u>\$ 116,060</u>	<u>\$ 991,114</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

Net change in fund balances - total governmental funds	\$	697,339
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.		
Current year additions	\$ 122,973	
Current year depreciation expense	<u>(213,961)</u>	(90,988)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(1,815)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	136,352	
Intergovernmental	<u>1,740</u>	138,092
Total		
The internal service fund used by management to charge the costs of insurance to various funds is not reported on the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue of the internal service fund is allocated among governmental activities.		
		727,633
Repayment of note and capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		17,673
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.		
		<u>23,631</u>
Change in net assets of governmental activities	\$	<u><u>1,511,565</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,906,008	\$ 4,126,302	\$ 4,126,302	\$ -
Tuition.	275,447	290,982	290,982	-
Earnings on investments.	58,928	62,251	62,774	523
Classroom materials and fees	17,101	18,065	18,065	-
Other local revenues.	25,476	26,913	26,913	-
Intergovernmental - State	4,353,870	4,599,424	4,599,424	-
Intergovernmental - Federal.	133	141	141	-
Total revenue	<u>8,636,963</u>	<u>9,124,078</u>	<u>9,124,601</u>	<u>523</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,177,436	4,229,751	4,217,585	12,166
Special.	704,575	713,399	707,431	5,968
Vocational.	353,448	357,874	353,508	4,366
Other	277,129	280,600	280,501	99
Support services:				
Pupil.	410,348	415,487	408,877	6,610
Instructional staff	229,845	232,723	231,734	989
Board of education	40,180	40,683	38,478	2,205
Administration.	708,043	716,910	713,373	3,537
Fiscal	329,419	333,544	326,723	6,821
Operations and maintenance.	635,292	643,248	626,718	16,530
Pupil transportation	775,706	785,420	757,047	28,373
Central.	99	100	-	100
Operation of non-instructional services	1,185	1,200	982	218
Extracurricular activities.	206,841	209,431	208,618	813
Total expenditures	<u>8,849,546</u>	<u>8,960,370</u>	<u>8,871,575</u>	<u>88,795</u>
Excess of revenues over (under) expenditures.	<u>(212,583)</u>	<u>163,708</u>	<u>253,026</u>	<u>89,318</u>
Other financing sources (uses):				
Refund of prior year expenditure	20,313	21,459	21,459	-
Transfers (out)	(27,867)	(28,216)	(28,216)	-
Advances in.	64,578	68,220	68,220	-
Advances (out)	(61,628)	(62,400)	(62,396)	4
Sale of assets.	763	806	806	-
Total other financing sources (uses)	<u>(3,841)</u>	<u>(131)</u>	<u>(127)</u>	<u>4</u>
Net change in fund balance	(216,424)	163,577	252,899	89,322
Fund balance at beginning of year.	221,690	221,690	221,690	-
Prior year encumbrances appropriated	112,366	112,366	112,366	-
Fund balance at end of year	<u>\$ 117,632</u>	<u>\$ 497,633</u>	<u>\$ 586,955</u>	<u>\$ 89,322</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 1,165,997
Total assets	<u>1,165,997</u>
Liabilities:	
Claims payable	293,196
Unearned revenue	<u>114,035</u>
Total liabilities	<u>407,231</u>
Net assets:	
Unrestricted.	<u>758,766</u>
Total net assets	<u><u>\$ 758,766</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 1,608,722
Total operating revenues	<u>1,608,722</u>
Operating expenses:	
Fringe benefits.	289,932
Claims.	628,604
Total operating expenses	<u>918,536</u>
Operating income	<u>690,186</u>
Nonoperating revenues:	
Interest revenue.	<u>37,447</u>
Total nonoperating revenues	<u>37,447</u>
Change in net assets.	727,633
Net assets at beginning of year	<u>31,133</u>
Net assets at end of year	<u><u>\$ 758,766</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,601,311
Cash payments for fringe benefits.	(289,932)
Cash payments for claims.	<u>(728,288)</u>
Net cash provided by operating activities	<u>583,091</u>
Cash flows from investing activities:	
Interest received	<u>37,447</u>
Net cash provided by investing activities	<u>37,447</u>
Net increase in cash and cash equivalents	620,538
Cash and cash equivalents at beginning of year.	<u>545,459</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,165,997</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 690,186
Changes in assets and liabilities:	
Decrease in claims payable	(99,684)
Decrease in unearned revenue.	<u>(7,411)</u>
Net cash provided by operating activities	<u><u>\$ 583,091</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private-Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 8,311	\$ 21,669
Receivables:		
Accounts	-	318
Total assets	8,311	\$ 21,987
Liabilities:		
Accounts payable	-	\$ 283
Due to others	-	1,629
Due to students	-	20,075
Total liabilities	-	\$ 21,987
Net Assets:		
Held in trust for scholarships	8,311	
Total net assets	\$ 8,311	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 423
Total additions.	423
Deductions:	
Scholarships awarded	300
Change in net assets	123
Net assets at beginning of year	8,188
Net assets at end of year	\$ 8,311

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District ranks as the 444th largest by enrollment among the 876 public school districts and community schools in the state. The District employs 45 non-certified and 81 certified full-time and part-time employees to provide services to 1,062 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and 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" 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, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. 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). The following organizations are described due to their relationship to the District.

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Tri-County Computer Service Association

The Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic technology for administrative and instructional functions for member school districts. Each of the governments of these school districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating school districts are located. Financial information can be obtained by contacting the treasurer at Tri-County Educational Services Center, which serves as fiscal agent, located in Wooster, Ohio. During the year ended June 30, 2007, the District paid \$68,626 to TCCSA.

Ashland County – West Holmes Career Center

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

INSURANCE PURCHASING POOL

Ohio Mid-Eastern Regional Educational Services Agency

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

Ohio School Boards Association Workers’ Compensation Group Rating Program

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 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 is the District's major governmental fund:

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.

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 and trust funds; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.

PROPRIETARY FUND

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

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

FIDUCIARY FUNDS

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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 services. Operating expenses for the internal service fund includes claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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 private purpose trust fund is reported using the economic resources measurement focus. The agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

Revenues - Exchange and 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, income 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, income taxes, 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.

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

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

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

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.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

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

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

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

F. Cash and Investments

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

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

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

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

During fiscal year 2007, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's 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 or by Board resolution. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$62,774, which includes \$17,193 assigned from other District funds.

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

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

G. Inventory

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

Inventory consists of donated food and purchased food held for resale.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$3,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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

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

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

Depreciation is computed using the straight-line method over the following useful lives:

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

I. Interfund Balances

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, 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. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

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

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property tax revenue unavailable for appropriation, and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Interfund Activity

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

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

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

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

Q. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund include unspent resources restricted for the purchase of school buses.

R. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY, COMPLIANCE AND PRIOR PERIOD RESTATEMENT

A. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 79,037
Entry Year Programs	3
Vocational Education	12
Title I	2,810

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

B. Restatement of Net Assets

The District has reported a prior period adjustment to correct for errors and omissions in the amount previously reported as accumulated depreciation at June 30, 2006. The prior period adjustment had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets, June 30, 2006	\$ 2,780,928
Adjustment for accumulated depreciation	<u>(1,598,396)</u>
Restated net assets, June 30, 2006	<u>\$ 1,182,532</u>

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

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

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 to be deposited or invested in the following securities:

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

At year-end, the District had \$125 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent (see Note 11.D). The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2007 was \$1,165,997. This represents the balance of the District's Employee Benefit Self-Insurance Fund. This amount is not included in the "deposits" or "investments" reported below.

C. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$(59,697). A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$34,231 of the District's bank balance of \$191,032 was exposed to custodial risk as discussed below, while \$156,801 was covered by the Federal Deposit Insurance Corporation.

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.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 1,004,158	\$ 1,004,158
Total	<u>\$ 1,004,158</u>	<u>\$ 1,004,158</u>

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

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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>% to Total</u>
STAR Ohio	\$ 1,004,158	100.00
Total	<u>\$ 1,004,158</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the 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	\$ (59,697)
Investments	1,004,158
Cash on hand	125
Cash with fiscal agent	<u>1,165,997</u>
Total	<u>\$ 2,110,583</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,080,603
Private-purpose trust fund	8,311
Agency funds	<u>21,669</u>
Total	<u>\$ 2,110,583</u>

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

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

NOTE 5 - INTERFUND TRANSACTIONS

- A. 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	Food Service (nonmajor governmental fund)	<u>\$ 62,396</u>

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

- B. Interfund transfers for the fiscal year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
General	Debt Service (nonmajor governmental fund)	<u>\$ 28,216</u>

This transfer was required to move resources from the general fund to the debt service fund for retirement of the District's energy conservation notes. Interfund transfers between governmental funds are eliminated on the statement of activities.

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 January 1, 2006, 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.

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

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 was 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.

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 Ashland and Wayne Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County 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. The amount available as an advance at June 30, 2007 was \$1,125,092 in the general fund and \$31,793 in the permanent improvement fund (a nonmajor governmental fund). This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$669,931 in the general fund and \$16,685 in the permanent improvement fund (a nonmajor governmental fund).

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.

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	\$ 109,950,710	80.32	\$ 108,176,840	80.34
Public utility personal	5,409,080	3.95	5,624,780	4.18
Tangible personal property	<u>21,531,918</u>	<u>15.73</u>	<u>20,848,496</u>	<u>15.48</u>
Total	<u>\$ 136,891,708</u>	<u>100.00</u>	<u>\$ 134,650,116</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$49.40		\$49.40	

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 3,952,027
Accounts	6,975
Intergovernmental	<u>30,028</u>
Total	<u>\$ 3,989,030</u>

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

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In a prior year, the District entered into capitalized leases for a postage machine. 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 equipment have been capitalized in the amount of \$3,350. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2007 totaled \$173 paid by the general fund. This principal payment retired the remaining capital lease obligation for the postage machine.

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

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

NOTE 9 - CAPITAL ASSETS

Governmental activities capital assets have been restated. Certain capital assets previously reported as “land” and “buildings and improvements” have been reclassified to be reported as “land improvements” to better reflect their nature. These adjustments have been reported as “category reclassifications” below. In addition, the District has reported a prior period adjustment (see Note 3.B) to correct for errors and omissions in the amount previously reported as accumulated depreciation at June 30, 2006. The effects of the corrections are reported as “accumulated depreciation adjustment” below. The following table summarizes the adjustments to capital assets as previously reported at June 30, 2006:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Category</u> <u>Recalssifications</u>	<u>Accumulated</u> <u>Depreciation</u> <u>Adjustment</u>	<u>Restated</u> <u>Balance</u> <u>June 30, 2006</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 227,735	\$ (175,765)	\$ -	\$ 51,970
Total capital assets, not being depreciated	<u>227,735</u>	<u>(175,765)</u>	<u>-</u>	<u>51,970</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	-	361,542	-	361,542
Buildings and improvements	2,925,618	(185,777)	-	2,739,841
Furniture and equipment	1,847,634	-	-	1,847,634
Vehicles	714,718	-	-	714,718
Infrastructure	15,220	-	-	15,220
Textbooks	532,988	-	-	532,988
Total capital assets, being depreciated	<u>6,036,178</u>	<u>175,765</u>	<u>-</u>	<u>6,211,943</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	-	(165,073)	(22,954)	(188,027)
Buildings and improvements	(565,866)	165,073	(1,564,434)	(1,965,227)
Furniture and equipment	(1,403,191)	-	-	(1,403,191)
Vehicles	(513,658)	-	-	(513,658)
Infrastructure	(2,194)	-	(11,008)	(13,202)
Textbooks	(458,693)	-	-	(458,693)
Total accumulated depreciation	<u>(2,943,602)</u>	<u>-</u>	<u>(1,598,396)</u>	<u>(4,541,998)</u>
Governmental activities capital assets, net	<u>\$ 3,320,311</u>	<u>\$ -</u>	<u>\$ (1,598,396)</u>	<u>\$ 1,721,915</u>

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

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

NOTE 9 - CAPITAL ASSETS – (Continued)

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

	Restated Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 51,970	\$ -	\$ -	\$ 51,970
Total capital assets, not being depreciated	<u>51,970</u>	<u>-</u>	<u>-</u>	<u>51,970</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	361,542	3,390	-	364,932
Buildings and improvements	2,739,841	-	-	2,739,841
Furniture and equipment	1,847,634	31,427	(22,578)	1,856,483
Vehicles	714,718	88,156	-	802,874
Infrastructure	15,220	-	-	15,220
Textbooks	532,988	-	-	532,988
Total capital assets, being depreciated	<u>6,211,943</u>	<u>122,973</u>	<u>(22,578)</u>	<u>6,312,338</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(188,027)	(3,573)	-	(191,600)
Buildings and improvements	(1,965,227)	(53,943)	-	(2,019,170)
Furniture and equipment	(1,403,191)	(81,149)	20,763	(1,463,577)
Vehicles	(513,658)	(48,089)	-	(561,747)
Infrastructure	(13,202)	(558)	-	(13,760)
Textbooks	(458,693)	(26,649)	-	(485,342)
Total accumulated depreciation	<u>(4,541,998)</u>	<u>(213,961)</u>	<u>20,763</u>	<u>(4,735,196)</u>
Governmental activities capital assets, net	<u>\$ 1,721,915</u>	<u>\$ (90,988)</u>	<u>\$ (1,815)</u>	<u>\$ 1,629,112</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 92,420
Special	1,864
Vocational	3,355
<u>Support Services:</u>	
Pupil	729
Instructional staff	28,580
Administration	4,377
Fiscal	498
Operations and maintenance	3,022
Pupil transportation	70,052
Extracurricular activities	8,149
Food service operations	915
Total depreciation expense	<u>\$ 213,961</u>

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

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

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2007</u>	Amounts Due in <u>One Year</u>
2000 Energy Conservation Notes: \$287,000, 5.125% interest rate, matures December 31, 2013	\$ 217,850	\$ -	\$ (17,500)	\$ 200,350	\$ 20,000
Capital lease obligation	173	-	(173)	-	-
Compensated absences	<u>891,999</u>	<u>76,914</u>	<u>(61,643)</u>	<u>907,270</u>	<u>153,340</u>
Total governmental activities	<u>\$ 1,110,022</u>	<u>\$ 76,914</u>	<u>\$ (79,316)</u>	<u>\$ 1,107,620</u>	<u>\$ 173,340</u>

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

The capital lease obligation was retired in fiscal year 2007 from the general fund. See Note 8 for further information.

Compensated absences will be paid from the fund which the employee's salaries are paid which, for the District is the general fund and the following nonmajor governmental funds: the food service fund and the Title I fund.

Principal and interest requirements to retire the energy conservation notes outstanding at June 30, 2007, are as follows:

Fiscal Year	<u>Energy Conservation Notes</u>		
<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 20,000	\$ 9,755	\$ 29,755
2009	22,500	8,666	31,166
2010	25,000	7,450	32,450
2011	27,500	6,104	33,604
2012	30,000	4,630	34,630
2013	35,000	2,965	37,965
2014	<u>40,350</u>	<u>1,034</u>	<u>41,384</u>
Total	<u>\$ 200,350</u>	<u>\$ 40,604</u>	<u>\$ 240,954</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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 \$11,697,696 and an unvoted debt margin of \$129,974.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has a comprehensive property and casualty policy with a deductible of \$1,000 per accident on property and \$1,000 per incident on equipment. The District's vehicle insurance policy limit with umbrella coverage is a total of \$6,000,000 with a \$1,000 collision deductible. All board members, administrators and employees are covered under a school district liability policy. Additionally the District carries a \$5,000,000 blanket umbrella policy. The limits of this coverage are \$6,000,000 per occurrence and \$8,000,000 per aggregate. Settlement claims have not exceeded coverage in any of the past three years. There have no significant reductions in insurance coverage from last year.

B. Fidelity Bond

The Board President, Superintendent and Treasurer/CFO hold position bonds through OSBA with limits of \$20,000, \$20,000 and \$100,000, respectively. All other school employees are covered under the District's employee honesty coverage with a \$500,000 limit and a \$1,000 deductible, which is separate from the property policy.

C. Workers' Compensation

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. For fiscal year 2007, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's 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".

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

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

NOTE 11 - RISK MANAGEMENT - (Continued)

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.

D. Employee Health Insurance

Medical/surgical, prescription, vision and dental insurance is offered to employees through a self-insurance program. The District has established a self-insurance internal service fund to account for this activity. The District is a member of the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) self-insurance plan, a claims servicing pool, consisting of over fifty members, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District’s behalf. The Jefferson County Educational Service Center is fiscal agent for the OME-RESA self-insurance plan.

The claims liability of \$293,196 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 claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2007	\$ 392,880	\$ 628,604	\$ (728,288)	\$ 293,196
2006	519,008	621,002	(747,130)	392,880

NOTE 12 - 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.

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

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

NOTE 12 - PENSION PLANS - (Continued)

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 \$96,277, \$104,325, and \$105,567, respectively; 47.87% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$50,193 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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.

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

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

NOTE 12 - PENSION PLANS - (Continued)

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 years 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 \$538,733, \$561,399, and \$530,355, respectively; 83.39% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$89,481 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

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 13 - 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 \$41,441 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.

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

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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 \$47,929 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 premiums 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.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of (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).

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

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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	\$ 252,899
Net adjustment for revenue accruals	473,005
Net adjustment for expenditure accruals	(158,987)
Net adjustment for other sources/uses	(27,283)
Adjustment for encumbrances	<u>163,206</u>
GAAP basis	<u>\$ 702,840</u>

NOTE 15 - 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.

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner of the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$315,802 per year. A portion of the refund may be recovered from additional State entitlement payments.

The District is involved in no other material litigation as either plaintiff or defendant.

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

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

NOTE 16 - 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 Acquisition</u>
Set-aside cash balance as of June 30, 2006	\$ (507,056)	\$ -
Current year set-aside requirement	161,725	161,725
Current year offsets	-	(116,704)
Qualifying disbursements	<u>(186,753)</u>	<u>(66,189)</u>
 Total	 <u>\$ (532,084)</u>	 <u>\$ (21,168)</u>
 Cash balance carried forward to FY 2008	 <u>\$ (532,084)</u>	 <u>\$ -</u>

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbooks/instructional materials reserve. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year. The capital acquisition reserve had current year offsets (not debt related) and qualifying disbursements in excess of current year set-aside requirement. These may not be carried forward.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

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

Amounts restricted for school bus purchases	\$ <u>10,935</u>
Total restricted assets	\$ <u>10,935</u>

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENT

Effective July 1, 2007, the District joined the Ohio School Plan (OSP) to provide for property, fleet and liability insurance. The OSP is an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services.



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Hillsdale Local School District
485 Twp. Rd. 1902
Jeromesville, OH 44840-975415

We have audited the financial statements of the governmental activities, its major fund and the aggregate remaining fund information of Hillsdale Local School District as of and for the fiscal year ended June 30, 2007, which collectively comprise Hillsdale Local School District's basic financial statements and have issued our report thereon dated November 16, 2007. As disclosed in Note 3B, the District has reported a prior period adjustment to properly report capital assets (specifically accumulated depreciation) and net assets at June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillsdale Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hillsdale Local School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hillsdale Local School District's internal control over financial reporting.

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hillsdale Local School District's internal control.

Board of Education
Hillsdale Local School District

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to not be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsdale Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hillsdale Local School District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Hillsdale Local School District's response and, accordingly, we express no opinion on it.

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



Julian & Grube, Inc.
November 16, 2007

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2007

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-HLSD-001

Significant Deficiency

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control. One of those deficiencies, which is applicable to the District is included in the SAS related to audit adjustments and it states the following:

The District presented capital assets and related depreciation expense and accumulated depreciation in their financial statements based on a valuation by an outside firm. Amounts reported at June 30, 2006 and during fiscal 2007 for accumulated depreciation and depreciation expense, respectively, were improperly reported.

These discrepancies resulted in a prior period adjustment in the amount of \$1,598,396 and a current year adjustment in the amount of \$125,959 for accumulated depreciation and depreciation expense, respectively.

The presentation of materially correct financial statements and the related footnotes, specifically capital assets and related accumulated depreciation and depreciation expense is the responsibility of management. This responsibility remains intact even if management decides to outsource this function for efficiency purposes or any other reason.

In either case, it is important that control procedures are developed related to capital assets that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes. In addition, management should not rely on its auditor to perform this control procedure as auditors must remain independent.

We recommend the District implement control procedures related to capital asset reporting that enables management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes, specifically, its presentation of capital assets and its related depreciation and accumulated depreciation.

Client Response: The District will consult on an annual basis with its appraisal firm and with its GAAP preparation firm and review in detail its annual appraisal report.



Mary Taylor, CPA
Auditor of State

HILLSDALE LOCAL SCHOOL DISTRICT

ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 3, 2008