



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SINGLE AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

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## REPORT OF INDEPENDENT ACCOUNTANTS

Hillsboro City School District  
Highland County  
338 West Main Street  
Hillsboro, Ohio 45133

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Hillsboro City School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Hillsboro City School District, Highland County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

**Jim Petro**  
Auditor of State

March 19, 2002

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Hillsboro City School District  
 Combined Balance Sheet  
 All Fund Types and Account Groups  
 June 30, 2001

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Equity in Pooled Cash and Investments	\$405,499	\$621,790	\$14,085,680	\$14,280,489
Restricted Equity in Pooled Cash and Investments	75,952	0	0	0
Receivables:				
Taxes	7,155,104	56,976	715,207	38,463
Intergovernmental	3,060	195,335	0	0
Accounts	24,352	2,782	0	0
Accrued Interest	1,273	0	0	0
Interfund Receivable	155,954	0	0	7,586
Inventory	0	0	0	0
Fixed Assets ( Net, where applicable, of Accumulated Depreciation)				
	0	0	0	0
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds				
	0	0	0	0
Amount to be Provided for Retirement of General Long-Term Obligations				
	0	0	0	0
<b>Total Assets &amp; Other Debits</b>	<b>\$7,821,194</b>	<b>\$876,883</b>	<b>\$14,800,887</b>	<b>\$14,326,538</b>
Liabilities, Fund Equity & Other Credits:				
Liabilities:				
Accounts Payable	\$123,506	\$37,783	\$0	\$0
Accrued Wages & Benefits	1,509,831	76,636	0	0
Compensated Absences Payable	189,954	3,829	0	0
Interfund Payable	0	3,000	0	2,060
Deferred Revenue	4,034,674	118,319	389,059	0
Due to Students	0	0	0	0
Claims Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Notes Payable	0	0	3,650,000	13,650,000
<b>Total Liabilities</b>	<b>5,857,965</b>	<b>239,567</b>	<b>4,039,059</b>	<b>13,652,060</b>
Fund Equity & Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	162,675	76,912	0	735,709
Reserved for Property Tax Advances	155,764	3,894	29,985	0
Reserved for Set-Asides	75,952	0	0	0
Designated for Budget Reserve	217,825	0	0	0
Unreserved & Undesignated	1,351,013	556,510	10,731,843	(61,231)
<b>Total Fund Equity (Deficit) &amp; Other Credits</b>	<b>1,963,229</b>	<b>637,316</b>	<b>10,761,828</b>	<b>674,478</b>
<b>Total Liabilities, Fund Equity &amp; Other Credits</b>	<b>\$7,821,194</b>	<b>\$876,883</b>	<b>\$14,800,887</b>	<b>\$14,326,538</b>

See accompanying notes.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$102,088	\$70,418	\$96,755	\$0	\$0	\$29,662,719
0	0	0	0	0	75,952
0	0	0	0	0	7,965,750
0	0	0	0	0	198,395
6,390	15,031	2,104	0	0	50,659
0	0	0	0	0	1,273
0	0	0	0	0	163,540
8,072	0	0	0	0	8,072
78,927	0	0	12,937,701	0	13,016,628
0	0	0	0	10,761,828	10,761,828
0	0	0	0	188,252	188,252
<u>\$195,477</u>	<u>\$85,449</u>	<u>\$98,859</u>	<u>\$12,937,701</u>	<u>\$10,950,080</u>	<u>\$62,093,068</u>
\$1,619	\$0	\$13	\$0	\$0	\$162,921
47,663	0	0	0	129,018	1,763,148
15,955	0	0	0	682,981	892,719
158,480	0	0	0	0	163,540
4,205	0	0	0	0	4,546,257
0	0	76,520	0	0	76,520
0	82,945	0	0	0	82,945
0	0	0	0	138,081	138,081
0	0	0	0	10,000,000	27,300,000
<u>227,922</u>	<u>82,945</u>	<u>76,533</u>	<u>0</u>	<u>10,950,080</u>	<u>35,126,131</u>
0	0	0	12,937,701	0	12,937,701
8,911	0	0	0	0	8,911
(41,356)	2,504	0	0	0	(38,852)
0	0	0	0	0	975,296
0	0	0	0	0	189,643
0	0	0	0	0	75,952
0	0	0	0	0	217,825
0	0	22,326	0	0	12,600,461
<u>(32,445)</u>	<u>2,504</u>	<u>22,326</u>	<u>12,937,701</u>	<u>0</u>	<u>26,966,937</u>
<u>\$195,477</u>	<u>\$85,449</u>	<u>\$98,859</u>	<u>\$12,937,701</u>	<u>\$10,950,080</u>	<u>\$62,093,068</u>

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Hillsboro City School District  
 Combined Statement of Revenues, Expenditures  
 And Changes in Fund Balance  
 All Governmental Fund Types and Expendable Trust Funds  
 For the Year Ended June 30, 2001

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Taxes	\$8,459,140	\$56,340	\$729,978	\$38,463	\$0	\$9,283,921
Intergovernmental	9,030,158	1,309,003	42,708	190,112	0	10,571,981
Investment	178,086	0	0	517,397	753	696,236
Tuition & Fees	87,646	0	0	0	0	87,646
Extracurricular Activities	0	311,163	0	0	0	311,163
Miscellaneous	113,620	107,511	0	0	527	221,658
<b>Total Revenues</b>	<b>17,868,650</b>	<b>1,784,017</b>	<b>772,686</b>	<b>745,972</b>	<b>1,280</b>	<b>21,172,605</b>
Expenditures:						
Current:						
Instruction:						
Regular	7,127,359	364,835	10,858	0	0	7,503,052
Special	915,162	429,843	0	0	0	1,345,005
Vocational	527,138	0	0	0	0	527,138
Other	89,314	5,805	0	0	0	95,119
Support Services:						
Pupils	706,130	109,312	0	0	0	815,442
Instructional Staff	987,298	322,402	0	24,066	0	1,333,766
Board of Education	16,513	0	0	0	0	16,513
Administration	1,837,107	14,331	0	5,218	0	1,856,656
Fiscal	415,183	0	0	0	0	415,183
Business	0	0	0	0	286	286
Operation & Maintenance of Plant	1,440,497	73,948	0	20,810	0	1,535,255
Pupil Transportation	1,221,967	334	0	0	0	1,222,301
Central	250	9,399	0	104,190	0	113,839
Operation of Non-Instructional Services	154,173	82,214	0	0	6,500	242,887
Extracurricular Activities	203,565	213,090	0	0	0	416,655
Capital Outlay	100,890	940	0	0	0	101,830
Debt Service:						
Principal Retirement	0	0	35,050	0	0	35,050
Interest & Fiscal Charges	0	0	9,047	0	0	9,047
<b>Total Expenditures</b>	<b>15,742,546</b>	<b>1,626,453</b>	<b>54,955</b>	<b>154,284</b>	<b>6,786</b>	<b>17,585,024</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>2,126,104</b>	<b>157,564</b>	<b>717,731</b>	<b>591,688</b>	<b>(5,506)</b>	<b>3,587,581</b>
Other Financing Sources (Uses):						
Proceeds of Notes	0	0	10,000,000	0	0	10,000,000
Proceeds from Sale of Fixed Assets	5,742	0	0	0	0	5,742
Operating Transfers In	0	0	44,097	50,000	0	94,097
Operating Transfers Out	(94,097)	0	0	0	0	(94,097)
<b>Total Other Financing Sources (Uses)</b>	<b>(88,355)</b>	<b>0</b>	<b>10,044,097</b>	<b>50,000</b>	<b>0</b>	<b>10,005,742</b>
<b>Excess of Revenues &amp; Other Financing Sources Over (Under) Expenditures &amp; Other Financing Uses</b>	<b>2,037,749</b>	<b>157,564</b>	<b>10,761,828</b>	<b>641,688</b>	<b>(5,506)</b>	<b>13,593,323</b>
Fund Balance, Beginning of Year	(74,520)	479,752	0	32,790	27,832	465,854
<b>Fund Balance, End of Year</b>	<b>\$1,963,229</b>	<b>\$637,316</b>	<b>\$10,761,828</b>	<b>\$674,478</b>	<b>\$22,326</b>	<b>\$14,059,177</b>

See accompanying notes.

Hillsboro City School District  
 Combined Statement of Revenues, Expenditures  
 And Changes in Fund Balance  
 Budget and Actual (Non-GAAP Budgetary Basis)  
 All Governmental Fund Types  
 For the Year Ended June 30, 2001

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$6,094,529	\$6,094,529	\$0	\$0	\$0	\$0
Intergovernmental	9,082,451	9,082,451	0	1,315,200	1,173,358	(141,842)
Investment	181,545	181,545	0	0	0	0
Tuition & Fees	94,439	94,439	0	0	0	0
Extracurricular Activities	0	0	0	308,623	308,623	0
Miscellaneous	108,921	108,921	0	107,269	107,269	0
<b>Total Revenues</b>	<b>15,561,885</b>	<b>15,561,885</b>	<b>0</b>	<b>1,731,092</b>	<b>1,589,250</b>	<b>(141,842)</b>
Expenditures:						
Current:						
Instruction:						
Regular	7,164,860	7,059,162	105,698	430,162	372,857	57,305
Special	937,325	907,084	30,241	553,102	434,184	118,918
Vocational	526,419	516,046	10,373	0	0	0
Other	90,602	89,369	1,233	0	0	0
Support Services:						
Pupils	736,033	720,311	15,722	114,022	110,202	3,820
Instructional Staff	1,033,372	995,043	38,329	492,523	380,824	111,699
Board of Education	17,360	17,039	321	0	0	0
Administration	1,864,247	1,821,821	42,426	17,153	14,331	2,822
Fiscal	358,069	357,244	825	0	0	0
Operation & Maintenance of Plant	1,437,911	1,433,182	4,729	125,343	80,922	44,421
Pupil Transportation	1,167,597	1,161,615	5,982	1,500	334	1,166
Central	250	250	0	17,122	8,935	8,187
Operation of Non-Instructional Services	168,874	158,451	10,423	105,020	102,834	2,186
Extracurricular Activities	218,637	212,701	5,936	223,654	209,691	13,963
Capital Outlay	112,977	108,591	4,386	940	940	0
Debt Service:						
Principal Retirement	0	0	0	35,050	0	35,050
Interest & Fiscal Charges	0	0	0	17,396	1,410	15,986
<b>Total Expenditures</b>	<b>15,834,533</b>	<b>15,557,909</b>	<b>276,624</b>	<b>2,132,987</b>	<b>1,717,464</b>	<b>415,523</b>
Excess (Deficiency) of Revenues Over Under Expenditures	(272,648)	3,976	276,624	(401,895)	(128,214)	273,681
Other Financing Sources (Uses):						
Proceeds of Notes	0	0	0	0	0	0
Proceeds from Sale of Fixed Assets	3,926	3,926	0	0	0	0
Operating Transfers In	0	0	0	0	0	0
Operating Transfers Out	(97,256)	(94,097)	3,159	(6,399)	0	6,399
Advances In	47,330	47,330	0	0	0	0
Advances Out	(20,000)	(17,592)	2,408	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(66,000)</b>	<b>(60,433)</b>	<b>5,567</b>	<b>(6,399)</b>	<b>0</b>	<b>6,399</b>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Us	(338,648)	(56,457)	282,191	(408,294)	(128,214)	280,080
Fund Balance, Beginning of Year (Includes Prior Year Encumbrances Appropriated)	299,978	299,978	0	577,322	577,322	0
<b>Fund Balance, End of Year</b>	<b>(\$38,670)</b>	<b>\$243,521</b>	<b>\$282,191</b>	<b>\$169,028</b>	<b>\$449,108</b>	<b>\$280,080</b>

See accompanying notes.

Debt Service			Capital Projects			Totals (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0	\$6,094,529	\$6,094,529	\$0
0	0	0	190,112	190,112	0	10,587,763	10,445,921	(141,842)
0	0	0	199,015	199,015	0	380,560	380,560	0
0	0	0	0	0	0	94,439	94,439	0
0	0	0	0	0	0	308,623	308,623	0
0	0	0	0	0	0	216,190	216,190	0
0	0	0	389,127	389,127	0	17,682,104	17,540,262	(141,842)
0	0	0	0	0	0	7,595,022	7,432,019	163,003
0	0	0	0	0	0	1,490,427	1,341,268	149,159
0	0	0	0	0	0	526,419	516,046	10,373
0	0	0	0	0	0	90,602	89,369	1,233
0	0	0	0	0	0	850,055	830,513	19,542
0	0	0	29,466	28,108	1,358	1,555,361	1,403,975	151,386
0	0	0	0	0	0	17,360	17,039	321
0	0	0	5,218	5,218	0	1,886,618	1,841,370	45,248
0	0	0	0	0	0	358,069	357,244	825
0	0	0	38,665	20,810	17,855	1,601,919	1,534,914	67,005
0	0	0	0	0	0	1,169,097	1,161,949	7,148
0	0	0	110,708	109,301	1,407	128,080	118,486	9,594
0	0	0	0	0	0	273,894	261,285	12,609
0	0	0	0	0	0	442,291	422,392	19,899
0	0	0	13,798,212	726,740	13,071,472	13,912,129	836,271	13,075,858
13,650,000	35,050	13,614,950	0	0	0	13,685,050	35,050	13,650,000
447,927	19,905	428,022	0	0	0	465,323	21,315	444,008
14,097,927	54,955	14,042,972	13,982,269	890,177	13,092,092	46,047,716	18,220,505	27,827,211
(14,097,927)	(54,955)	14,042,972	(13,593,142)	(501,050)	13,092,092	(28,365,612)	(680,243)	27,685,369
13,650,000	13,650,000	0	13,650,000	13,650,000	0	27,300,000	27,300,000	0
0	0	0	0	0	0	3,926	3,926	0
44,097	44,097	0	50,000	50,000	0	94,097	94,097	0
0	0	0	0	0	0	(103,655)	(94,097)	9,558
0	0	0	17,592	17,592	0	64,922	64,922	0
0	0	0	(47,330)	(47,330)	0	(67,330)	(64,922)	2,408
13,694,097	13,694,097	0	13,670,262	13,670,262	0	27,291,960	27,303,926	11,966
(403,830)	13,639,142	14,042,972	77,120	13,169,212	13,092,092	(1,073,652)	26,623,683	27,697,335
0	0	0	57,185	57,185	0	934,485	934,485	0
(\$403,830)	\$13,639,142	\$14,042,972	\$134,305	\$13,226,397	\$13,092,092	(\$139,167)	\$27,558,168	\$27,697,335

Hillsboro City School District  
 Combined Statement of Revenues, Expenses  
 And Changes in Retained Earnings  
 All Proprietary Fund Types  
 For the Year Ended June 30, 2001

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
Operating Revenues:			
Charges for Services	\$607,961	\$174,657	\$782,618
Tuition & Fees	13,424	0	13,424
Miscellaneous Revenue	0	15,031	15,031
Total Operating Revenues	<u>621,385</u>	<u>189,688</u>	<u>811,073</u>
Operating Expenses:			
Salaries	267,204	0	267,204
Fringe Benefits	147,899	30,400	178,299
Purchased Services	85,182	0	85,182
Materials & Supplies	396,517	0	396,517
Depreciation	6,236	0	6,236
Claims	0	202,535	202,535
Total Operating Expenses	<u>903,038</u>	<u>232,935</u>	<u>1,135,973</u>
Operating Income (Loss)	<u>(281,653)</u>	<u>(43,247)</u>	<u>(324,900)</u>
Non-Operating Revenues (Expenses):			
Donated Commodities	44,481	0	44,481
Operating Grants - State & Local	279,283	0	279,283
Total Non-Operating Revenues	<u>323,764</u>	<u>0</u>	<u>323,764</u>
Net Income	42,111	(43,247)	(1,136)
Retained Earnings, Beginning of Year	<u>(83,467)</u>	<u>45,751</u>	<u>(37,716)</u>
Retained Earnings, End of Year	<u><u>(\$41,356)</u></u>	<u><u>\$2,504</u></u>	<u><u>(\$38,852)</u></u>

See accompanying notes.

Hillsboro City School District  
 Combined Statement of Cash Flows  
 All Proprietary Fund Types  
 For the Year Ended June 30, 2001

	Proprietary Fund Types		Totals (Memorandum only)
	Enterprise	Internal Service	
Cash Flows from Operating Activities:			
Cash Received from Tuition & Fees	\$13,424	\$0	\$13,424
Cash Received from Charges for Services	601,571	0	601,571
Cash Received from Miscellaneous Sources	0	174,657	174,657
Cash Payments for Personal Services	(413,732)	(30,400)	(444,132)
Cash Payments for Contract Services	(84,422)	(189,301)	(273,723)
Cash Payments for Supplies & Materials	(353,193)	0	(353,193)
Net Cash Provided (Used) by Operating Activities	<u>(236,352)</u>	<u>(45,044)</u>	<u>(281,396)</u>
Cash Flows from Non-Capital Financing Activities:			
Cash Received from Operating Grants	<u>279,771</u>	<u>0</u>	<u>279,771</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>279,771</u>	<u>0</u>	<u>279,771</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	<u>(3,400)</u>	<u>0</u>	<u>(3,400)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(3,400)</u>	<u>0</u>	<u>(3,400)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	40,019	(45,044)	(5,025)
Cash and Cash Equivalents at Beginning of Year	<u>62,069</u>	<u>115,462</u>	<u>177,531</u>
Cash and Cash Equivalents at End of Year	<u><u>\$102,088</u></u>	<u><u>\$70,418</u></u>	<u><u>\$172,506</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	(\$281,653)	(\$43,247)	(\$324,900)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	6,236	0	6,236
Donated Commodities Used	44,481	0	44,481
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivables	(6,390)	(15,031)	(21,421)
(Increase) Decrease in Materials & Supplies Inventory	(2,198)	0	(2,198)
Increase (Decrease) in Accounts Payable	(1,387)	13,234	11,847
Increase (Decrease) in Accrued Wages & Benefits	(17)	0	(17)
Increase (Decrease) in Compensated Absences Payable	1,388	0	1,388
Increase (Decrease) in Deferred Revenue	3,188	0	3,188
Net Cash Provided (Used) by Operating Activities	<u><u>(\$236,352)</u></u>	<u><u>(\$45,044)</u></u>	<u><u>(\$281,396)</u></u>

See accompanying notes.

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**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**1. DESCRIPTION OF THE DISTRICT**

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

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 118 non-certificated personnel and 192 certificated teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the District's ADM is 2,825. It currently operates four elementary buildings housing grades K-6, and one Middle School/Senior High building housing grades 7-12. The Administrative Office is located at 338 West Main Street, Hillsboro, Ohio.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

**A. The Reporting Entity**

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the Hillsboro City School District, this includes general operations, food service, preschool and student related activities of the District. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the District) are financially accountable. The District would consider an organization to be a component unit if:

1. The District appointed a voting majority of the organization's governing body **AND** (a) was able to impose its will on that organization **OR** (b) there was a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. **OR**
2. The organization was fiscally dependent upon the District. **OR**
3. The nature of the relationship between the District and the organization was such that exclusion from the financial reporting entity would render the financial statements misleading.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

The District included no component units in the accompanying financial statements.

**B. Basis of Presentation - Fund Accounting**

The accounts of the District are organized and operated on the basis of fund and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues, and expenditures or expenses, as appropriate. The following fund types and account groups are used by the District:

**Governmental Funds**

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except for those accounted for in the proprietary and fiduciary fund types) are accounted for through Governmental Funds. The following are the District's Governmental Funds.

**General Fund**

The General Fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes.

**Capital Projects Fund**

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**Proprietary Funds**

Proprietary Funds are used to account for the District's ongoing activities, which are similar to those most often found in the private sector. The following are the District's Proprietary Funds:

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Fund

The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

Fiduciary Funds

Fiduciary Funds are used to account for the assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Account Groups**

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the District, other than those accounted for in Proprietary Funds and Trust Funds.

General Long-Term Obligations Account Group

This group of accounts is established to account for all long-term obligations of the District, except those accounted for in Proprietary Funds and Trust Funds.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**C. Measurement Focus/Basis of Accounting**

*Measurement Focus:* Governmental Fund Types and Expendable Trust Funds are accounted for on a spending, or "current financial resources," measurement focuses. Governmental Fund Types and expendable Trust Funds operating statements represent increases and decreases in net current assets. Their reported fund balances are considered a measure of available spendable resources.

The District considers unpaid contractually required pension contributions as a current liability (governmental fund liability) because the liability is expected to be liquidated with available expendable resources.

Proprietary Fund Types and Nonexpendable Trust funds are accounted for on a cost of services, or "economic resources," measurement focus. Proprietary Fund Type income statements represent increases and decreases in net total assets.

*Basis of Accounting:* The modified accrual basis of accounting is followed for Governmental, Expendable Trust and Agency Funds. Under this basis of accounting revenues are recognized when they become both measurable and available to finance expenditures for the current period, which for the District is 60 days after the fiscal year end. In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: real property tax available for advance, investment earnings, tuition, grants, and student fees. Delinquent property taxes are recorded as receivables if received within the available period. Expenditures are recognized in the period in which the related fund liability is incurred, except interest on long-term debt which is recorded when due. Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

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 School District, available means expected to be received within sixty days of year-end.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Grants and entitlements fund financial statements, receivables that will now be collected within the available period have also been reported as deferred revenue.

**D. Budgetary Data**

*Budgetary Basis of Accounting:* The District's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when encumbered, or paid in cash (budget), as opposed to when susceptible to accrual (GAAP).

The actual results of operations, compared to the final appropriation, which includes amendments to the original appropriation, for each fund type by expenditure function and revenue by source are presented in the *Combined Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual (non-GAAP Budgetary Basis)*. The reserve for encumbrances is carried forward as part of the budgetary authority for the next year and is included in the revised budget amounts shown in the budget to actual comparisons.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

The District is required by the State Statute to adopt an annual appropriated budget for all governmental fund types. The specific timetable is as follows:

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated increased the original appropriated amounts.
8. Unencumbered appropriations lapse at the year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**E. Encumbrances**

Encumbrance accounting is utilized by District funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For Governmental Fund Types encumbrances outstanding at fiscal year-end appear as a reserve of the fund balance on a GAAP Basis and for all funds as the equivalent of expenditures/expenses on a non-GAAP budgetary basis in order to demonstrate legal compliance.

**F. Cash and Investments**

Cash received by the District is deposited in various bank accounts with individual fund balance integrity maintained throughout. Monies for all funds are maintained in these accounts or are temporarily used to purchase short-term cash equivalent investments. Under existing Ohio statutes, all investments earnings accrue to the General Fund except those specifically related to Agency Funds, certain trust funds, and those funds individually authorized by Board resolution.

For purposes of the Statement of Cash Flows, the Enterprise Fund's portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from these funds without prior notice or penalty.

**G. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. Senate Bill 345 eliminated the Budget Stabilization Reserve. The Board of Education decided to make additional contributions to the Reserve during fiscal year 2001 from unrestricted General Fund monies. The current year set-aside requirement for the Reserve is from a Bureau of Workers' Compensation refund received prior to April 10, 2001.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**H. Inventory (Materials and Supplies)**

Inventories of the Enterprise Funds are valued at lower of cost (first-in, first-out method) or market and are determined by the physical count.

**I. Fixed Assets and Depreciation**

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District does not possess any infrastructure.

Proprietary Funds

Property, plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<b>Building Improvements</b>	20-40 years
<b>Equipment</b>	3-15 years

**J. Compensated Absences**

GASB Statement No. 16 specifies that compensated absences should be accrued as they are earned by employees if both of the following conditions are met:

1. The employee's rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employee for the benefits through paid time off or cash payment.

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

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

	<u><b>Certificated</b></u>	<u><b>Administrators</b></u>	<u><b>Non-Certificated</b></u>
<b><u>Vacation:</u></b>			
How earned	Not Eligible	Per Board Policy	10-20 Days
Termination Entitlement	N/A	Per Board Policy	Per Board Policy
<b><u>Sick Leave:</u></b>			
How earned	1-1/4 days per mo. of employment (15 days per year)	1-1/4 days per mo. of employment (15 days per year)	1-1/4 days per mo. of employment (15 days per year)
Maximum Accumulation	245	245	245
Vested	As earned	As earned	As earned
Termination Entitlement	Per Contract	Per Board Policy	Per Board Policy

For Governmental Funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the respective Governmental Fund. Amounts that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Obligations Account Group. Compensated absences of Proprietary Funds are recorded as an expense and liability of the respective proprietary fund.

**K. Interfund Transactions**

During the course of normal operations the District has numerous transactions between funds. The most significant include:

1. Routine transfers of resources from one fund to another fund through which resources to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another fund are treated as expenditures/expenses in the reimbursing fund and as a reduction in expenditures/expenses in the reimbursed fund.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

3. Short-term interfund loans are reflected as an interfund payable/receivable, while long-term interfund loans (greater than one year in length) are recorded as advances to/from other funds.

**L. Long-Term Obligations**

Long-term debt is recognized as a liability of a Governmental Fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available resources is reported as a fund liability of a Governmental Fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group. Long-term liabilities expected to be financed from Proprietary Fund operations are accounted for in those funds.

**M. Estimates**

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

**N. Fund Equity**

The District records reservations for portions of fund equity, which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, materials and supplies inventory, property taxes and budgetary set-asides required under Ohio law.

**O. Memorandum Only - Total Columns**

Total columns on the general-purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principals. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**P. Proprietary Fund Accounting**

In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", the District applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principals Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

**Q. Contributed Capital**

Contributed capital represents resources from other funds, other governments and private sources provided to the proprietary funds that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end.

Because the School District did not prepare financial statements in accordance with generally accepted accounting principles prior to fiscal year 1993, the exact amount of contributed capital cannot be determined. Consequently, only those amounts that have been specifically identified have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to proprietary funds have been classified as retained earnings.

**3. EQUITY IN POOLED CASH AND INVESTMENTS**

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

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

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

Inactive Monies - Those monies not required for use within the current two-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories.

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

Interim Monies - These are monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

State legislation now permits 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 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 division (1) or (2) of this section 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. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School 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.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

Deposits

District deposits at fiscal year end consisted of certificates of deposit, and checking accounts. At year-end the carrying amount of the District's deposits was \$1,849,028. The bank balance of deposits was \$2,448,388. Of that balance, \$270,861 was covered by federal depository insurance. The remaining bank balance was covered by collateral held by third-party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions. The remaining cash balance is defined by GASB statement No. 3 as uncollateralized, because the collateral held by the trustees is not in the District's name.

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the entity at year-end.

CATEGORY 1 includes investments that are issued, registered, or held by the District or its agent in the District's name.

CATEGORY 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the District's name.

CATEGORY 3 includes uninsured and unregistered investments held by the counterparty, or by its department or agent, but not in the District's name.

Based on the above criteria, the District's investments at year-end are classified as follows:

<u>INVESTMENTS</u>	<u>RISK CATEGORY</u>	<u>CARRYING VALUE / FAIR VALUE</u>
Money Market – US Treasury Equivalent	*	\$ 51,055
STAROhio	*	13,724,188
Federal Home Loan Bank Bonds	3	5,506,924
Federal Home Loan Mortgage Corp.	3	1,639,065
Federal National Mortgage Association	3	5,570,076
Commercial Paper	3	<u>1,398,332</u>
		<u>\$27,889,640</u>

(\*) Unclassified Investments because they are not evidenced by securities that exist in physical or book entry form.

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**4. PROPERTY TAXES**

Property taxes include amounts levied against real, public utility and tangible personal (business) property. The assessed values, by property classification, upon which taxes collected in 2001 were based, are as follows:

<b>Real Property - Commercial/Industrial</b>	\$ 38,591,292
<b>Real Property - Residential/Agricultural</b>	153,382,948
<b>Real Property - Public Utilities</b>	22,240
<b>Personal Property – General</b>	28,934,930
<b>Personal Property – Public Utilities</b>	<u>11,405,610</u>
<b>Total</b>	<u>\$232,337,020</u>

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes, attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment was due by March 11. If paid semi-annually, the first payment (at least 1/2 of amount billed) was due March 11, with the remainder due on August 12.

The Highland County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of Real and Public Utility property taxes in February and August and Tangible Personal Property taxes in June and October.

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**5. FIXED ASSETS**

A summary of the General Fixed Assets Account Group at year-end follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land & Land Improvements	\$1,196,285	\$ 0	\$ 0	\$1,196,285
Building and Building Improvements	4,982,722	0	0	4,982,722
Equipment	<u>6,422,428</u>	<u>363,380</u>	<u>27,114</u>	<u>6,422,428</u>
Total	<u>\$12,601,435</u>	<u>\$ 363,380</u>	<u>\$ 27,114</u>	<u>\$12,937,701</u>

A summary of the Proprietary Fund fixed assets at year-end follows:

Equipment	\$247,342
Less Accumulated Depreciation	<u>(168,415)</u>
Net Fixed Assets	<u>\$ 78,927</u>

**6. LONG-TERM OBLIGATIONS/SHORT-TERM DEBT**

**Changes in Long-Term Obligations:**

During the current fiscal year, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and accrued wages and benefits will be paid from the fund from which the employee is paid. The capital lease payable will be repaid from the Capital Projects and General Funds.

	Balance Beginning of Year Restated	Increase	(Decrease)	Balance End of Year
Accrued Wages & Benefits	\$138,526	\$ 0	(\$9,508)	\$129,018
Compensated Absences	702,465	0	(19,484)	682,981
Bond Anticipation Note	0	10,000,000	-	10,000,000
General Obligation Bonds	<u>173,131</u>	<u>0</u>	<u>(35,050)</u>	<u>138,081</u>
Totals	<u>\$1,014,122</u>	<u>\$ 10,000,000</u>	<u>(\$64,042)</u>	<u>\$10,950,080</u>

The accrued wages and benefits amounts above represent pension contributions that are not expected to be liquidated with expendable available financial resources.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**General Obligation Bonds:**

The following is a description of the District's General Obligation Bonds as of the year-end:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 6/30/00</u>	<u>Issued 2001</u>	<u>Retired 2001</u>	<u>Balance 6/30/01</u>
Energy Conservation	5.2	9/21/99	9/21/04	\$173,131	\$ 0	\$35,050	\$138,081

The following is a summary of the District's future annual debt service requirements to maturity:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$10,036,923	\$506,707	\$10,543,630
2003	38,895	4,762	43,657
2004	40,966	2,712	43,678
2005	<u>21,297</u>	<u>554</u>	<u>21,851</u>
<b>Total</b>	<b><u>\$10,138,081</u></b>	<b><u>\$514,735</u></b>	<b><u>\$10,652,816</u></b>

**Short-Term Debt:**

During fiscal year 2001, the School District issued one-year \$27,300,000 bond anticipation notes for the purpose of construction and renovation of buildings. These notes will be repaid with tax revenue. These notes are backed by the full faith and credit of the School District. The note liability is reflected in the Permanent Improvement Capital Projects fund and the Debt Service fund, which received the proceeds.

	<u>Balance 6/30/2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2001</u>
Permanent Improvement Debt Service Fund:				
5% Bond Anticipation Note	\$ 0	\$10,000,000	\$10,000,000	\$0
4.2% Bond Anticipation Note	0	3,650,000	0	3,650,000
Capital Projects Fund:				
3.98% Bond Anticipation Note	0	10,000,000	0	10,000,000
3.51% Bond Anticipation Note	<u>0</u>	<u>3,650,000</u>	<u>0</u>	<u>3,650,000</u>
<b>Totals</b>	<b><u>\$ 0</u></b>	<b><u>\$27,300,000</u></b>	<b><u>\$10,000,000</u></b>	<b><u>\$17,300,000</u></b>

The District refinanced a 5% \$10,000,000 Bond Anticipation Note paid into the debt service fund into bonds after year-end. Therefore the note will be considered long-term debt, and therefore disclosed as a deletion in the "Short-Term Debt" section of this note, and as an addition in the changes in "Long-Term Obligations" section of this note.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**7. INTERFUND ACTIVITY**

As of June 30, 2001, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$155,954	\$ 0
Capital Projects Fund	7,586	2,060
Special Revenue Fund	0	3,000
Enterprise Funds	<u>0</u>	<u>158,480</u>
Total All Funds	<u>\$163,540</u>	<u>\$163,540</u>

**8. SEGMENT INFORMATION**

Enterprise Funds

The District maintains two Enterprise Funds to account for the operations of Food Services and Uniform School Supply. The table below reflects, in a summarized format, the more significant financial data relating to the Enterprise Funds of the District as of and for the current year-end.

	<u>Food Services</u>	<u>Uniform School Supply</u>	<u>Total</u>
Operating Revenues	\$607,961	\$13,424	\$621,385
Operating Expenses Before Depreciation	886,896	9,906	896,802
Depreciation	6,236	0	6,236
Operating Income (Loss)	(285,171)	3,518	(281,653)
Operating Grants	279,283	0	279,283
Donated Commodities	44,481	0	44,481
Net Income (Loss)	38,593	3,518	42,111
Capital Contributions	0	0	0
Property, Plant & Equipment Additions	3,400	0	3,400
Property, Plant & Equipment Deletions (net of accum. deprec.)	0	0	0

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

Net Working Capital	(122,989)	3,545	(119,444)
Total Assets	191,932	3,545	195,477
Total Liabilities	227,922	0	227,922
Total Equity	(35,990)	3,545	(32,445)

**9. RISK MANAGEMENT**

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

General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$5,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 for automobile liability. The District also has umbrella liability coverage with a limit of \$5,000,000.

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$22,543,645. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The District pays all appointed officials' bonds by statute.

During the current fiscal year, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), a group purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School 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." 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.

Dental insurance is offered to employees through a self-insurance internal service fund. The claims liability of \$82,945 reported in the internal service fund at fiscal year end is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

Changes in claims activity for the fiscal year follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
FY 2001	\$69,711	\$202,435	\$189,301	\$82,845

**10. EMPLOYEE RETIREMENT SYSTEM**

***SCHOOL EMPLOYEES RETIREMENT SYSTEM***

The Hillsboro City School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9% of their annual covered salary and the Hillsboro City School District is required to contribute 14%. The contribution rates are not determined actuarially, but are established by SERS' Retirement board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's contributions to SERS for the years ending June 30, 2001, 2000 and 1999 were \$388,134, \$341,454, and \$312,270, respectively. \$212,136 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

***STATE TEACHERS RETIREMENT SYSTEM***

The Hillsboro City School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

Plan members are required to contribute 9.3% of their annual covered salary and the Hillsboro City School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not exceed statutory maximum rates of 10% for members and 14% for employers. The District's contributions to STRS for the years ending June 30, 2001, 2000 and 1999 were \$1,093,332, \$1,029,468, and \$978,228, respectively, equal to the required contributions for each year. \$187,568 represents the unpaid contribution for fiscal year 2001, and is recorded as a liability within the respective funds.

***POST-EMPLOYMENT BENEFITS***

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated 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 obligation 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the year ended June 30, 2001, the allocation will be 4.5% of the covered payroll.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.149 billion at June 30, 2000. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For fiscal year 2001, employer contributions to fund health care benefits were 8.45 percent of covered payroll, an increase from 6.30 percent for fiscal year 2000. 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 2000, the minimum pay has been established at \$12,400. 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.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care at June 30, 2000, were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**11. BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principals (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. A reconciliation of the nature and amounts of the adjustments necessary to convert the GAAP financial statements to the budgetary basis follows:

Reconciliation of Excess of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses  
From GAAP Basis to Budgetary Basis

<u>Governmental Fund Types</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
GAAP Basis	\$381,363	\$142,263	\$719,120	\$323,306
Net Adjustment for Revenue Accruals	(1,614,864)	(189,220)	12,920,022	13,629,129
Net Adjustment for Expenditure Accruals	1,463,225	33,438	0	(47,514)
Net Adjustment for Encumbrances	<u>(286,181)</u>	<u>(114,695)</u>	<u>0</u>	<u>(735,709)</u>
Budgetary Basis	<u>(\$56,457)</u>	<u>(\$128,214)</u>	<u>\$13,639,142</u>	<u>\$13,169,212</u>

**12. ACCOUNTABILITY**

The Enterprise Fund had a deficit retained earnings balance of \$63,976. This deficit is expected to be provided for through future revenues.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**13. CONTINGENT LIABILITIES**

*Grants*

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. Management is unable to estimate possible claims resulting from such audits until the audits have been completed. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District.

**14. JOINTLY GOVERNED ORGANIZATIONS**

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

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**15. SCHOOL FUNDING DECISION/SUBSEQUENT EVENT**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 27, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and re-determine any issue upon such reconsideration

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**16. STATUTORY RESERVES**

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2001, the reserve activity (cash basis) was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>
Set-aside Reserve Balance as of June 30, 2000	(\$85,467)	(\$190,000)	\$217,825
Current Year Set-aside Requirement	250,080	250,080	0
Reduction in Set-Aside Due to Legislation	0	0	(141,873)
Current Year Offsets	0	0	0
Qualifying Disbursements	<u>(343,529)</u>	<u>(1,547,255)</u>	<u>0</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$178,916)</u>	<u>(\$1,487,175)</u>	<u>\$75,952</u>
Set-aside Reserve Balance As of June 30, 2001	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$75,952</u>

Current year qualifying expenditures/offsets totaled \$343,529 and \$1,547,255, respectively for the textbook reserve and capital maintenance reserve.

**17. CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2001, the School District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." At June 30, 2001, there was no effect on fund balance as a result of implementing GASB 33.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001  
(Continued)**

**18. NON-COMPLIANCE**

Contrary to Ohio Revised Code, Section 5705.38, the District did not adopt their permanent appropriation resolution by the required date.

Supplemental appropriation changes were made to the District's system without proper approval, contrary to Ohio Revised Code, Section 5705.40.

The District did not follow the required guidelines related to establishing an investment policy and types of investments, contrary to Ohio Revised Code, Sections 135.14 and 133.03 (A)(1).

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**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$46,571	\$0	\$44,481
School Breakfast Program	05-PU-01 05-PU-00	10.553	42,680	0	42,680	0
National School Lunch Program	LL-P1-00 LL-P4-00 LL-P1-01 LL-P4-01	10.555	211,424	0	211,424	0
Special Milk Program for Children	02-PU-01 02-PU-00	10.556	4,935	0	4,935	0
Summer Food Service Program for Children	24-PU-00 23-PU-00	10.559	6,220	0	6,220	0
Total U.S. Department of Agriculture - Nutrition Cluster			<u>265,259</u>	<u>46,571</u>	<u>265,259</u>	<u>44,481</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Title XIX	N/A	93.778	11,643	0	11,643	0
Total U.S. Department of Health and Human Services			<u>11,643</u>	<u>0</u>	<u>11,643</u>	<u>0</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF-01 6B-SF-00 6B-A1-01	84.027	98,226	0	133,030	0
Special Education - Preschool Grants	PG-S1-01 PG-S1-00	84.173	4,660	0	9,301	0
Total - Special Education Cluster			102,886	0	142,331	0
Title I Grants to Local Educational Agencies	C1-S1-01 C1-S1-00 C1-SD-01	84.010	468,895	0	451,384	0
Innovative Educational Program Strategies	C2-S1-01	84.298	2,534	0	2,534	0
Safe and Drug-Free Schools and Communities - State Grants	DR-S1-01 DR-S1-99 DR-S1-00	84.186	11,798	0	9,349	0
Eisenhower Professional Development - State Grants	MS-S1-01 MS-S1-00	84.281	12,739	0	12,083	0
Technology Literacy Challenge Grant Funds	TF-34-00	84.318	0	0	62,500	0
Goals 2000 - State and Local Education Systemic Improvement	G2-S2-01 G2-S2-00 G2-S2-99 G2-S3-01	84.276	43,000	0	20,771	0
Title VI-R Class Size Reduction	CR-S1-01 CR-S1-00	84.340	73,321	0	75,260	0
Total U.S. Department of Education			<u>715,173</u>	<u>0</u>	<u>776,212</u>	<u>0</u>
<b>Totals</b>			<u><b>\$992,075</b></u>	<u><b>\$46,571</b></u>	<u><b>\$1,053,114</b></u>	<u><b>\$44,481</b></u>

*The accompanying notes to this schedule are an integral part of this schedule.*

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2001**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B— FOOD DISTRIBUTION**

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.

**NOTE C--COMMUNITY ALTERNATIVE FUNDING SYSTEM**

Receipts for this grant are posted to the General Fund. It is assumed federal monies are expended first.



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Hillsboro City School District  
Highland County  
338 West Main Street  
Hillsboro, Ohio 45133

To the Board of Education:

We have audited the general-purpose financial statements of Hillsboro City School District, Highland County, Ohio (the District), as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated March 19, 2002. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10436-001 through 2001-10436-03. We also noted immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated March 19, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings as item 2001-10436-001 through 2001-10436-003 .

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control structure over financial reporting that do not require inclusion in this report that we have reported to management of the District in a separate letter dated March 19, 2002.

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

**Jim Petro**  
Auditor of State

March 19, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hillsboro City School District  
Highland County  
338 West Main Street  
Hillsboro, Ohio 45133

To the Board of Education:

**Compliance**

We have audited the compliance of Hillsboro City School District, Highland County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2001. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of District's management. Our responsibility is to express an opinion on Hillsboro City School District's compliance based on our audit.

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

In our opinion, Hillsboro City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2001.

**Internal Control Over Compliance**

The management of Hillsboro City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Hillsboro City School District  
Highland County  
Report of Independent Accountants on Compliance with Requirements  
Applicable to Each Major Federal Program and Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to material weaknesses.

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

**Jim Petro**  
Auditor of State

March 19, 2002

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2001**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title I, CFDA #84.010
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2001-10436-001**

**NonCompliance Citation/Reportable Condition**

Ohio Rev. Code, Section 5705.38 (B), states that a board of education shall pass its annual appropriation measure by the first day of October. If, by the first day of October, a board has not received either the amended certificates of estimated resources required by division (B) of section 5705.36 of the Revised Code or certifications that no amended certificates need be issued, the adoption of the annual appropriation measure shall be delayed until the amended certificates or certifications are received. The District passed a temporary appropriation measure on June 28, 2000, but the permanent appropriation measure was not passed until June 28, 2001. Contrary to this section, the District did not meet the two exceptions.

Ohio Rev. Code, Section 5705.40, provides that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. Our review indicated that appropriations were amended by the Treasurer throughout the year on the District's accounting system, but there was no indication that the Board of Education approved these amendments.

Passage of a permanent appropriation measure and approval of amend or supplemental appropriations are not only required by the Ohio Revised Code, but are also key controls in the District's accounting function. When appropriations posted to the accounting system have not been approved by the Board, the accounting system is no longer an effective tool for monitoring budgetary expenditures versus appropriations. Furthermore, monthly reports provided to the Board which detail budget versus actual numbers do not reflect the District's legally adopted appropriations. This could lead to expenditures being made in excess of appropriations. The Board of Education should adopt a permanent appropriation measure prior to October 1<sup>st</sup> of each fiscal year and approve all amended or supplemental appropriation throughout the fiscal year.

**FINDING NUMBER 2001-10436-002**

**NonCompliance Citation/Reportable Condition**

Ohio Rev. Code, Section 135.14(O)(1) states in part "no treasurer or governing board shall make an investment or deposit under this section, unless there is on file with the auditor of state a written investment policy approved by the treasurer or governing board."

A new investment policy was created by the District in anticipation of the current investing in notes. However, this new policy was not filed with the Auditor of State's Office. The last investment policy filed with the Auditor of State was date December 12, 1996. Without a current investment policy on file, the District is only permitted to invest in StarOhio, certificates of deposit and no-load money market mutual funds pursuant to division (B)(5) of Ohio Rev. Code, Section 135.14.

The District's investment policy also outlines procedures for establishing an investment advisory committee. The Committee's requirements are to meet quarterly to review and analyze reports, summarize recent market and economic conditions, economic development and anticipate investment. The District did not follow their investment policy. The District did not establish an Investment Advisory Committee. Consequently, there was no committee to meet quarterly to review important investment reports.

**FINDING NUMBER 2001-10436-003**

**NonCompliance Citation/Reportable Condition**

Ohio Rev. Code, Section 135.142 states that any board of education may, by two-thirds vote of its members, authorize the treasurer of the school district to invest up to 25% of interim monies of the board, available at any one time, in commercial paper notes. The District held investments in commercial paper, however the Board did not vote to authorize this investment.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

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**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2001**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><i>Explain:</i></b>
2000-10436-001	Ohio Rev. Code, Section 5705.41 (B) Expenditures were in excess of appropriations.	Yes	
2000-10436-002	Ohio Rev. Code, Section 5705.38, permanent appropriation measures were not adopted until June 28, 2000	No	Reissued as finding 2001-10436-001
2000-10436-003	Ohio Rev., Code, Section 5705.29(H), requires the District to maintain a budget reserve	N/A	Due to a change in legislation, the District is required to maintain a reserve for the amount of Bureau of Workers Comp refunds received. The District complied with this requirement in 2001.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**HILLSBORO CITY SCHOOL DISTRICT**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 9, 2002**