

Hillsdale Local School District

Audited Financial Statements

June 30, 2003



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Hillsdale Local School District, Ashland County, prepared by Rea & Associates, Inc., for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 8, 2003

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

JUNE 30, 2003

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

October 31, 2003

To the Board of Education
Hillsdale Local School District
Jeromesville, OH 44840

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of Hillsdale Local School District (the "District") as of and for the year ended June 30, 2003, 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 Hillsdale Local School District as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated October 31, 2003 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.

Rea & Associates, Inc.

HILLSDALE LOCAL SCHOOL DISTRICT

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 2003

Governmental Fund Types

	General	Special Revenue	Capital Projects
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,366,146	\$ 106,162	\$ 37,561
Cash in Segregated Accounts	0	0	0
Investment	0	0	0
Receivables:			
Taxes	3,787,629	0	117,144
Accounts	1,921	368	0
Interfund	364,853	0	0
Intergovernmental Receivable	6,860	15,479	0
Prepaid Items	127,958	0	0
Inventory	0	0	0
Fixed Assets (Net)	0	0	0
Total Assets	5,655,367	122,009	154,705
<u>Other Debits</u>			
Amount to be Provided from General			
Government Resources	0	0	0
Total Other Debits	0	0	0
Total Assets and Other Debits	\$ 5,655,367	\$ 122,009	\$ 154,705
<u>Liabilities</u>			
Accounts Payable	\$ 5,639	\$ 2,649	\$ 3,107
Contracts Payable	60,677	0	0
Accrued Wages and Benefits	749,479	16,164	0
Compensated Absences Payable	14,232	0	0
Interfund Payable	0	0	0
Intergovernmental Payable	131,680	494	0
Deferred Revenue	3,154,586	15,479	97,565
Due to Students	0	0	0
Notes Payable	0	0	0
Claims Payable	0	0	0
Capital Lease Payable	0	0	0
Total Liabilities	4,116,293	34,786	100,672
<u>Fund Equity and Other Credits</u>			
Investment in General Fixed Assets	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance (Deficit):			
Reserved for Encumbrances	258,079	11,525	29,884
Reserved for Endowment	0	0	0
Reserved for Tax Revenue not Available for Appropriation	633,043	0	19,579
Reserved for Prepaids	127,958	0	0
Unreserved:			
Undesignated	519,994	75,698	4,570
Total Fund Equity and Other Credits	1,539,074	87,223	54,033
Total Liabilities, Fund Equity and Other Credits	\$ 5,655,367	\$ 122,009	\$ 154,705

The accompanying notes are an integral part of these financial statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency Funds	General Fixed Assets	General Long-Term Obligations	
\$ 19,054	\$ 1,180	\$ 26,411	\$ 0	\$ 0	\$ 1,556,514
0	47,423	2,841	0	0	50,264
0	0	5,000	0	0	5,000
0	0	0	0	0	3,904,773
1,767	0	0	0	0	4,056
0	0	0	0	0	364,853
0	0	0	0	0	22,339
7,200	0	0	0	0	135,158
18,033	0	0	0	0	18,033
10,982	0	0	6,103,643	0	6,114,625
<u>57,036</u>	<u>48,603</u>	<u>34,252</u>	<u>6,103,643</u>	<u>0</u>	<u>12,175,615</u>
0	0	0	0	1,155,920	1,155,920
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,155,920</u>	<u>1,155,920</u>
<u>\$ 57,036</u>	<u>\$ 48,603</u>	<u>\$ 34,252</u>	<u>\$ 6,103,643</u>	<u>\$ 1,155,920</u>	<u>\$ 13,331,535</u>
\$ 0	\$ 0	\$ 301	\$ 0	\$ 0	\$ 11,696
0	0	0	0	0	60,677
29,935	0	0	0	0	795,578
14,200	0	0	0	679,213	707,645
18,000	346,853	0	0	0	364,853
12,260	0	0	0	53,694	198,128
0	104,497	0	0	0	3,372,127
0	0	24,818	0	0	24,818
0	0	0	0	350,350	350,350
0	167,540	0	0	0	167,540
0	0	0	0	72,663	72,663
<u>74,395</u>	<u>618,890</u>	<u>25,119</u>	<u>0</u>	<u>1,155,920</u>	<u>6,126,075</u>
0	0	0	6,103,643	0	6,103,643
(17,359)	(570,287)	0	0	0	(587,646)
0	0	0	0	0	299,488
0	0	7,000	0	0	7,000
0	0	0	0	0	652,622
0	0	0	0	0	127,958
0	0	2,133	0	0	602,395
<u>(17,359)</u>	<u>(570,287)</u>	<u>9,133</u>	<u>6,103,643</u>	<u>0</u>	<u>7,205,460</u>
<u>\$ 57,036</u>	<u>\$ 48,603</u>	<u>\$ 34,252</u>	<u>\$ 6,103,643</u>	<u>\$ 1,155,920</u>	<u>\$ 13,331,535</u>

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HILLSDALE LOCAL SCHOOL DISTRICT

*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances*
All Governmental Fund Types
For the Year Ended June 30, 2003

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<u>Revenues</u>					
Taxes	\$ 3,142,455	\$ 0	\$ 0	\$ 92,358	\$ 3,234,813
Intergovernmental	4,354,646	264,702	0	13,921	4,633,269
Investment Income	36,678	0	0	0	36,678
Tuition and Fees	298,907	0	0	0	298,907
Extracurricular Activities	0	220,687	0	0	220,687
Other Revenue	81,108	63,365	0	0	144,473
Total Revenues	7,913,794	548,754	0	106,279	8,568,827
<u>Expenditures</u>					
Current:					
Instruction:					
Regular	3,798,043	107,223	0	37,276	3,942,542
Special	459,281	138,588	0	0	597,869
Vocational	288,542	0	0	0	288,542
Other	203,374	0	0	0	203,374
Support Services:					
Pupils	348,336	67,455	0	0	415,791
Instructional Staff	252,158	39,804	0	13,549	305,511
Board of Education	40,970	0	0	0	40,970
Administration	649,001	74,306	0	0	723,307
Fiscal	276,407	150	0	2,058	278,615
Operation and Maintenance of Plant	533,444	1,078	0	0	534,522
Pupil Transportation	571,552	0	0	0	571,552
Central	20,253	10,500	0	0	30,753
Operation of Non-Instructional Services	1,963	0	0	0	1,963
Extracurricular Activities	208,779	219,016	0	5,344	433,139
Capital Outlay	219,704	108	0	54,869	274,681
Debt Service:					
Principal Retirement	11,571	0	97,500	0	109,071
Interest and Fiscal Charges	4,261	0	23,454	0	27,715
Total Expenditures	7,887,639	658,228	120,954	113,096	8,779,917
Excess of Revenues Over (Under) Expenditures	26,155	(109,474)	(120,954)	(6,817)	(211,090)
<u>Other Financing Sources (Uses)</u>					
Proceeds from Capital Lease	67,520	0	0	0	67,520
Proceeds from Sales of Fixed Assets	1,092	0	0	70	1,162
Operating Transfers In	0	21,906	120,954	0	142,860
Operating Transfers Out	(79,954)	(21,906)	0	(41,000)	(142,860)
Total Other Financing Sources (Uses)	(11,342)	0	120,954	(40,930)	68,682
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	14,813	(109,474)	0	(47,747)	(142,408)
Fund Balance at Beginning of Year	1,524,261	196,697	0	101,780	1,822,738
Fund Balance at End of Year	\$ 1,539,074	\$ 87,223	\$ 0	\$ 54,033	\$ 1,680,330

The accompanying notes are an integral part of these financial statements.

HILLSDALE LOCAL SCHOOL DISTRICT

*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)*

All Governmental Fund Types

For the Year Ended June 30, 2003

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 3,116,058	\$ 3,116,058	\$ 0
Intergovernmental	4,348,143	4,348,143	0
Investment Income	36,678	36,678	0
Tuition and Fees	298,280	298,280	0
Extracurricular Activities	0	0	0
Other Revenue	87,034	87,034	0
Total Revenues	7,886,193	7,886,193	0
Expenditures			
Current:			
Instruction	5,182,131	5,043,778	138,353
Support Services:			
Pupils	335,835	347,679	(11,844)
Instructional Staff	281,816	252,154	29,662
Board of Education	53,184	43,029	10,155
Administration	662,449	647,946	14,503
Fiscal	285,866	277,220	8,646
Operation and Maintenance of Plant	629,826	572,591	57,235
Pupil Transportation	627,243	578,376	48,867
Central	22,200	22,186	14
Operation of Non-Instructional Services	2,168	2,026	142
Extracurricular Activities	213,306	208,146	5,160
Capital Outlay	273,496	266,458	7,038
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	8,569,520	8,261,589	307,931
Excess of Revenues Over (Under) Expenditures	(683,327)	(375,396)	307,931
Other Financing Sources (Uses)			
Proceeds from Capital Leases	67,520	67,520	0
Proceeds from Sale of Assets	1,092	1,092	0
Refund of Prior Year Expenditures	67,880	67,880	0
Refund of Prior Year Receipts	(10)	(9)	1
Advances In	436,698	436,698	0
Advances Out	(420,000)	(364,853)	55,147
Operating Transfers In	0	0	0
Operating Transfers Out	(79,954)	(79,954)	0
Total Other Financing Sources (Uses)	73,226	128,374	55,148
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(610,101)	(247,022)	363,079
Fund Balance at Beginning of Year	1,096,818	1,096,818	0
Prior Year Encumbrances Appropriated	192,244	192,244	0
Fund Balance at End of Year	\$ 678,961	\$ 1,042,040	\$ 363,079

The accompanying notes are an integral part of these financial statements.

Special Revenue Fund			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
264,845	264,845	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
220,649	220,649	0	0	0	0
68,791	68,791	0	0	0	0
<u>554,285</u>	<u>554,285</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
265,598	246,735	18,863	0	0	0
73,714	67,455	6,259	0	0	0
43,580	39,920	3,660	0	0	0
0	0	0	0	0	0
86,041	77,758	8,283	0	0	0
150	150	0	0	0	0
1,538	1,078	460	0	0	0
300	0	300	0	0	0
10,500	10,500	0	0	0	0
0	0	0	0	0	0
230,484	229,640	844	0	0	0
0	108	(108)	0	0	0
0	0	0	97,500	97,500	0
0	0	0	23,454	23,454	0
<u>711,905</u>	<u>673,344</u>	<u>38,561</u>	<u>120,954</u>	<u>120,954</u>	<u>0</u>
<u>(157,620)</u>	<u>(119,059)</u>	<u>38,561</u>	<u>(120,954)</u>	<u>(120,954)</u>	<u>0</u>
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(5,304)	(5,391)	(87)	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
21,906	21,906	0	120,954	120,954	0
<u>(21,906)</u>	<u>(21,906)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>(5,304)</u>	<u>(5,391)</u>	<u>(87)</u>	<u>120,954</u>	<u>120,954</u>	<u>0</u>
(162,924)	(124,450)	38,474	0	0	0
199,833	199,833	0	0	0	0
16,689	16,689	0	0	0	0
<u>\$ 53,598</u>	<u>\$ 92,072</u>	<u>\$ 38,474</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

(Continued)

HILLSDALE LOCAL SCHOOL DISTRICT

*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)*

All Governmental Fund Types
For the Year Ended June 30, 2002

	Capital Projects Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 91,541	\$ 91,541	\$ 0
Intergovernmental	13,921	13,921	0
Investment Income	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Other Revenue	0	0	0
Total Revenues	105,462	105,462	0
Expenditures			
Current:			
Instruction	48,486	39,441	9,045
Support Services:			
Pupils	0	0	0
Instructional Staff	8,697	13,549	(4,852)
Board of Education	0	0	0
Administration	0	0	0
Fiscal	3,040	2,058	982
Operation and Maintenance of Plant	250	0	250
Pupil Transportation	0	0	0
Central	0	0	0
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	7,774	5,360	2,414
Capital Outlay	79,193	82,588	(3,395)
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	147,440	142,996	4,444
Excess of Revenues Over (Under) Expenditures	(41,978)	(37,534)	4,444
Other Financing Sources (Uses)			
Proceeds from Capital Leases	0	0	0
Proceeds from Sale of Assets	70	70	0
Refund of Prior Year Expenditures	0	0	0
Refund of Prior Year Receipts	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(41,000)	(41,000)	0
Total Other Financing Sources (Uses)	(40,930)	(40,930)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(82,908)	(78,464)	4,444
Fund Balance at Beginning of Year	67,767	67,767	0
Prior Year Encumbrances Appropriated	15,267	15,267	0
Fund Balance at End of Year	\$ 126	\$ 4,570	\$ 4,444

The accompanying notes are an integral part of these financial statements.

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 3,207,599	\$ 3,207,599	\$ 0
4,626,909	4,626,909	0
36,678	36,678	0
298,280	298,280	0
220,649	220,649	0
155,825	155,825	0
<u>8,545,940</u>	<u>8,545,940</u>	<u>0</u>
5,496,215	5,329,954	166,261
409,549	415,134	(5,585)
334,093	305,623	28,470
53,184	43,029	10,155
748,490	725,704	22,786
289,056	279,428	9,628
631,614	573,669	57,945
627,543	578,376	49,167
32,700	32,686	14
2,168	2,026	142
451,564	443,146	8,418
352,689	349,154	3,535
97,500	97,500	0
23,454	23,454	0
<u>9,549,819</u>	<u>9,198,883</u>	<u>350,936</u>
<u>(1,003,879)</u>	<u>(652,943)</u>	<u>350,936</u>
67,520	67,520	0
1,162	1,162	0
67,880	67,880	0
(5,314)	(5,400)	(86)
436,698	436,698	0
(420,000)	(364,853)	55,147
142,860	142,860	0
<u>(142,860)</u>	<u>(142,860)</u>	<u>0</u>
<u>147,946</u>	<u>203,007</u>	<u>55,061</u>
(855,933)	(449,936)	405,997
1,364,418	1,364,418	0
224,200	224,200	0
<u>\$ 732,685</u>	<u>\$ 1,138,682</u>	<u>\$ 405,997</u>

HILLSDALE LOCAL SCHOOL DISTRICT

*Combined Statement of Revenues,
Expenses, and Changes in Fund Equity*

All Proprietary Fund Types and Nonexpendable Trust Funds

For the Year Ended June 30, 2003

	Proprietary Fund Types			Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
<u>Operating Revenues</u>				
Sales	\$ 275,960	\$ 0	\$ 0	\$ 275,960
Charges for Services	0	1,162,464	0	1,162,464
Investment Income	0	0	129	129
Other Operating Revenues	0	0	0	0
<i>Total Operating Revenues</i>	275,960	1,162,464	129	1,438,553
<u>Operating Expenses</u>				
Salaries	128,435	0	0	128,435
Fringe Benefits	93,162	0	0	93,162
Purchased Services	6,004	260,973	0	266,977
Materials and Supplies	175,447	0	0	175,447
Depreciation	6,686	0	0	6,686
Claims Expense	0	914,946	0	914,946
Other Operating Expenses	0	0	135	135
<i>Total Operating Expenses</i>	409,734	1,175,919	135	1,585,788
Operating Loss	(133,774)	(13,455)	(6)	(147,235)
<u>Non-Operating Revenues</u>				
Operating Grants	85,661	0	0	85,661
Federal Donated Commodities	44,137	0	0	44,137
Other Non-Operating Income	6,270	0	0	6,270
<i>Total Non-Operating Revenues</i>	136,068	0	0	136,068
Net Income (Loss)	2,294	(13,455)	(6)	(11,167)
Retained Earnings/Fund Balance (Deficit) at Beginning of Year	(19,653)	(556,832)	9,139	(567,346)
Retained Earnings/Fund Balance (Deficit) at End of Year	\$ (17,359)	\$ (570,287)	\$ 9,133	\$ (578,513)

The accompanying notes are an integral part of these financial statements.

Hillsdale Local School District

Combined Statement of Cash Flows

All Proprietary Fund Types and Nonexpendable Trust Funds

For the Year Ended June 30, 2003

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	Proprietary Fund Types			Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
<u>Cash Flows From Operating Activities</u>				
Cash Received from Customers	\$ 276,108	\$ 1,185,847	\$ 0	\$ 1,461,955
Interest Received	0	0	129	129
Cash Paid for Goods and Services	(149,661)	(260,973)	(135)	(410,769)
Cash Paid to Employees	(222,838)	0	0	(222,838)
Cash Paid for Claims and Expenses	0	(806,218)	0	(806,218)
Net Cash Provided by (Used for) Operating Activities	(96,391)	118,656	(6)	22,259
<u>Cash Flows From Non-Capital Financing Activities</u>				
Grants	85,661	0	0	85,661
Other Non-Operating Revenues	6,270	0	0	6,270
Advance in	18,000	346,853	0	364,853
Advance Out	(13,160)	(423,538)	0	(436,698)
Net Cash Provided by (Used for) Non-Capital Activities	96,771	(76,685)	0	20,086
<u>Cash Flows From Investing Activities</u>				
Acquisition of Fixed Assets	(5,965)	0	0	(5,965)
Net Cash Used for Capital Activities	(5,965)	0	0	(5,965)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,585)	41,971	(6)	36,380
Cash and Cash Equivalents at Beginning of Year	24,639	6,632	9,139	40,410
Cash and Cash Equivalents at End of Year	\$ 19,054	\$ 48,603	\$ 9,133	\$ 76,790
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</u>				
Operating (Loss)	\$ (133,774)	\$ (13,455)	\$ (6)	\$ (147,235)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:				
Depreciation	6,686	0	0	6,686
Donated Commodities	44,137	0	0	44,137
(Increase) Decrease in Assets:				
Accounts Receivable	148	0	0	148
Inventory	(3,913)	0	0	(3,913)
Prepaid Items	(1,138)	0	0	(1,138)
Increase (Decrease) in Liabilities:				
Intergovernmental Payable	2,947	0	0	2,947
Accrued Wages and Benefits	392	0	0	392
Compensated Absences Payable	(3,442)	0	0	(3,442)
Claims Payable	0	108,728	0	108,728
Deferred Revenue	(8,434)	23,383	0	14,949
Total Adjustments	37,383	132,111	0	169,494
Net Cash By (Used for) Operating Activities	\$ (96,391)	\$ 118,656	\$ (6)	\$ 22,259
<u>Reconciliation of Cash and Cash Equivalents to the Balance Sheet</u>				
Trust and Agency			\$ 34,252	
Less: Agency Funds			25,119	
Nonexpendable Trust Fund			<u>\$ 9,133</u>	

The accompanying notes are an integral part of these financial statements.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Hillsdale Local School District (District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the District. Average daily membership on, or as of October 1, 2002, was 1,156. The District employs 79 certificated and 46 non-certificated employees.

The reporting entity is required to be composed of the primary government, component units and other organizations that are included to ensure that the general purpose financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District. The District has no component units.

The District is involved with Tri-County Computer Service Association (TCCSA) and Ashland County-West Holmes Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organization is presented in Note 19.

Management believes the general purpose financial statements included in the report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounts of the District are organized and operated on the basis of funds and account groups to report on its' financial position and the results of operations. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The District has the following fund types and account groups:

Governmental Fund Types

Governmental fund types are used to account for the District's general government activities. Governmental fund types and the expendable trust funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. 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 the pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 10). Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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, 2003, but which are levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payment to be made early in the following year. Compensated absences are reported as a fund liability when payment will require use of current available financial resources. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. Governmental funds include the following fund types:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for the payment of general long-term obligation principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or nonexpendable trust funds.

Proprietary Fund Types

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and the nonexpendable trust fund. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the District has elected to apply only applicable Financial Accounting Standards Board Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations unless they contradict/conflict with Governmental Accounting Standards Board pronouncements. Proprietary fund types include the following fund types:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs, including depreciation where applicable, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and 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 goods or services provided by one department or agency to other governmental units, on a cost-reimbursement basis.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Types

Fiduciary fund types account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary fund types are as follows:

Nonexpendable Trust Funds – The nonexpendable trust funds are accounted for in essentially the same manner as the proprietary fund types.

Agency Funds – The agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the District holds for others in an agency capacity.

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 a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the District, other than those accounted for in proprietary or nonexpendable trust funds.

General Long-term Obligations Account Group - This account group is established to account for all long-term obligations of the District except those accounted for in the proprietary or nonexpendable trust funds.

B. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources as certified by the County Auditor.

Although only the governmental funds are being reported, all funds, except agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Modifications to total fund appropriations may only be made by resolution of the Board of Education. However, the Treasurer may make appropriation modifications at the function level without a Board of Education resolution as long as total appropriations per fund do not change.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash, Cash Equivalents, and Investments

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

During fiscal year 2003, investments were limited to STAR Ohio and Certificates of Deposit. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$36,678, which includes \$20,234 assigned from other District funds.

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2003. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

D. Receivables

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

E. Estimates

The preparation of the 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 could differ from those estimates.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as “due from other funds” or “due to other funds” on the balance sheet. Short-term interfund loans are classified as “interfund receivables” and “interfund payables.” Long-term interfund loans are classified as “advances to/from other funds” and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

G. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consist of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories are not significant for governmental fund types and, therefore, are not reported.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Fixed Assets and Depreciation

Fixed assets used in governmental fund types of the District are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. The District does not possess any infrastructure.

Fixed assets which are used in proprietary fund type activities are capitalized in the respective funds. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at estimated fair market value when received, based on historical information available. Depreciation is computed using the straight-line method based on the estimated life of assets. Estimated useful lives of the various classes of depreciable assets consist of: equipment - 5 to 20 years. The capitalization threshold is \$1,000.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Under Ohio law, a debt service fund must be created and used for the payment of tax and revenue anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/ expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The entire estimated amount of unpaid compensated absences, including sick pay and vacation pay, of proprietary type funds is reflected as a liability in the respective funds. The current portion of unpaid compensated absences for sick leave related to governmental fund type operations is reflected in the respective funds. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

M. Fund Balance Reserves

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and materials, long-term advances to other funds, contributions to the nonexpendable trust funds that must be kept intact. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

N. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The District currently participates in several state and federal programs, categorized as follows:

Entitlements

General Fund:

State Foundation Program
State Property Tax Relief
School Bus Purchase Allowance

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Reimbursable Grants

Special Revenue Funds:

Education Management Information Systems
Safe School Help
Line Grant
Ohio Reads
School Net Professional Development
Conflict Management Grant
Title I
Title II-A
Title II
Title II-D
Title V, Innovative Programs
Title VI
Title VI-B
Title VI-R
Idea-B, Special Education
LSTA Innovative Technology Grant
Drug-Free Schools
Teacher Development Block Grant

Capital Projects Funds:

School Net
Power Up

Reimbursable Grants

General Revenue Funds:

CAFS
E-Rate

Proprietary Funds:

National School Lunch Program
Government Donated Commodities

Grants and entitlements amounted to approximately 46% of the District's operating revenue during the 2003 fiscal year.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Total Columns

Total columns on the general purpose financial statements are captioned “Memorandum Only” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3: BUDGETARY PROCESS

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit a proposed operating budget to the Board of Education. A budget of estimated revenue and expenditures is submitted to the Ashland County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the ensuing July 1 to June 30 fiscal year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official Certificate of Estimated Resources which states projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the Certificate of Estimated Resources is amended to include any unencumbered balances from the preceding year. The Certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budget receipts, as shown in the accompanying “Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis) - All Governmental Fund Types” do not include July 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 3: BUDGETARY PROCESS (Continued)

Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual Appropriation Resolution must be passed by October 1 of each year for the period July 1 to June 30. The Appropriation Resolution fixes spending authority at the fund level and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among functions within a fund may be modified during the year by the Treasurer. Several supplemental appropriation resolutions were legally enacted by the Board of Education during the year. The budget figures, as shown in the accompanying "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis) - All Governmental Fund Types" represent the final appropriation amounts including all amendments and modifications.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective funds from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the generally accepted accounting principles (GAAP) basis, encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balance for subsequent year expenditures.

Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the GAAP basis, the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis) - All Governmental Fund Types" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and GAAP Basis are that:

- 1) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- 2) Expenditures are recorded when paid in cash (budget basis) rather than when the liability is incurred (GAAP basis).

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 3: BUDGETARY PROCESS (Continued)

- 3) Encumbrances are treated as expenditure/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types as note disclosure in the proprietary fund type (GAAP basis).
- 4) Proceeds from and principal payments on bond and revenue anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
- 5) The District repays debt from the debt service fund (budget non-GAAP basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds follow:

Excess (Deficiency) of Revenue Over Expenditures and Other
Sources (Uses) Reconciliation of Budget Basis to GAAP Basis

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>
Budgetary Basis	\$ (247,022)	\$ (124,450)	\$ (78,464)
Encumbrances	324,108	14,090	32,991
Revenue accruals	392,463	(140)	817
Expenditure accruals	<u>(454,736)</u>	<u>1,026</u>	<u>(3,091)</u>
GAAP Basis	<u>\$ 14,813</u>	<u>\$ (109,474)</u>	<u>\$ (47,747)</u>

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

At June 30, 2003, the following funds had a deficit fund balance: Food Service Enterprise Fund - \$17,359; Self-Insurance Internal Service Fund - \$570,287, which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

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

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

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- 4) Bonds and any 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; and
- 6) The State Treasurer's Investment Pool (STAR Ohio).

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

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

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 District or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

At year-end, the carrying amount of the District's deposits was (\$493,596), which includes petty cash and cash on-hand in the amount of \$125, and the bank balance was \$50,124. Of the bank balance,

1. \$50,124 was covered by federal depository insurance, and
2. \$-0- was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for deposit of money has been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Funds Held by Fiscal Agent

The District participates in the Tri-County Educational Service Center Employees Insurance Consortium for employee benefits. The amount held at fiscal year end for the Employee Benefit Self-Insurance Fund was \$(299,430). All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Investments

At year end, the District's funds were invested entirely in the State Treasurer's Investment Pool with a balance of \$2,105,375. The State Treasurer's Pool does not require categorization under Governmental Accounting Standards Board Statement No. 3.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 1,606,779	\$ 5,000
Investments which are part of cash management pool:		
STAR Ohio	(2,105,375)	2,105,375
Certificate of Deposit	5,000	(5,000)
GASB Statement No. 3	<u>\$ (493,596)</u>	<u>\$ 2,105,375</u>

NOTE 6: RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (customer services and student fees), accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

General	\$ 6,860
Special Revenue:	
IDEA-B	4,752
Title IV	1,411
Title II-A	7,376
Title II-D	1,940
	<u>\$ 22,339</u>

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 7: FIXED ASSETS AND DEPRECIATION

A. General Fixed Assets Account Group

The changes in general fixed assets during the year consisted of:

	Balance July 1, 2002	Additions	Disposals	Balance June 30, 2003
Land and improvements	\$ 227,735	\$ 0	\$ 0	\$ 227,735
Buildings and improvements	2,839,734	50,152	(7,221)	2,882,665
Furniture and equipment	2,212,407	117,616	(151,231)	2,178,792
Vehicles	645,065	52,700	0	697,765
Construction in progress	0	116,686	0	116,686
	<u>\$ 5,924,941</u>	<u>\$ 337,154</u>	<u>\$ (158,452)</u>	<u>\$ 6,103,643</u>

B. Proprietary Fund Type Fixed Assets

Proprietary fund type fixed assets and accumulated depreciation at year-end consisted of:

<u>Enterprise</u>	<u>June 30, 2003</u>
Equipment	\$ 147,168
Less: Accumulated Depreciation	(136,186)
Net Fixed Assets	<u>\$ 10,982</u>

NOTE 8: LONG-TERM OBLIGATIONS

The changes in the District's general long-term obligations during the fiscal year 2003 were as follows:

	Outstanding June 30, 2002	Additions	Reductions	Outstanding June 30, 2003
Energy Conservation Notes:				
5.5% interest rate, due June 1, 2004	\$ 185,000	\$ 0	\$ (90,000)	\$ 95,000
5.125% interest rate, due December 1, 2013	262,850	0	(7,500)	255,350
Intergovernmental payable	50,092	53,694	(50,092)	53,694
Capital lease payable	41,740	67,520	(36,597)	72,663
Compensated absences	640,424	38,789	0	679,213
	<u>\$ 1,180,106</u>	<u>\$ 160,003</u>	<u>\$ (184,189)</u>	<u>\$ 1,155,920</u>

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 8: LONG-TERM OBLIGATIONS (Continued)

Energy conservation notes are direct obligations of the District for which its full faith, credit and resources are pledged. Proceeds from the notes were used for energy conservation improvements to school buildings.

Capital lease reductions of \$36,597 is different than the general fund principal retirement amount of \$11,571. The \$25,026 difference is the balance of a copier lease that was traded in on a new copier lease or disposed of.

No new long-term debt was issued in 2003.

The annual requirements to retire general obligation debt, including notes outstanding as of June 30, 2003, were as follows:

		Principal	Interest	Total
Year Ending June 30,	2004	\$ 105,000	\$ 18,055	\$ 123,055
	2005	12,500	12,254	24,754
	2006	15,000	11,549	26,549
	2007	17,500	10,716	28,216
	2008	20,000	9,755	29,755
	2009-2013	140,000	29,815	169,815
	2014	40,350	1,034	41,384
	Total	\$ 350,350	\$ 93,178	\$ 443,528

NOTE 9: CAPITAL LEASES

The District has entered into a capitalized lease for a copier. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the combined financial statements for the government funds.

General fixed assets consisting of copiers have been capitalized in the general fixed assets account group in the amount of \$67,520. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligation account group. Principal payments in fiscal year 2003 totaled \$11,571 in the governmental funds.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 9: CAPITAL LEASES (Continued)

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2003:

		<u>General Long-Term Obligations Account Group</u>
Year Ending June 30,	2004	\$ 21,858
	2005	21,858
	2006	21,858
	2007	14,840
	2008	<u>9,473</u>
Total minimum lease payments		89,887
Less: Amount representing interest at the District's incremental borrowing rate of interest		<u>17,224</u>
Present value of minimum lease payments		<u>\$ 72,663</u>

NOTE 10: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the District. The Ashland and Wayne County Auditors are responsible for assessing and remitting these property taxes to the District.

Real property taxes are based on assessed value equal to 35% of appraisal value. The Ashland and Wayne County Auditors reappraise real property every six years with a triennial update, the last update for Ashland County was done in 1996, and Wayne County was done in 1995. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, real property taxes are billed semi-annually one year in arrears. The tax rates applied to real property collected in 2002 for Ashland and Wayne County before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$49.40 per \$1,000 of valuation. The effective rates applied for Ashland County and Wayne County after adjustment for inflationary increases in property values were \$25.60 and \$25.53, respectively, per \$1,000 of assessed valuation for residential and agricultural real property, and \$30.44 and \$30.46, respectively, per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate for Ashland County and Wayne County applied to tangible personal property for the current year ended December 31, 2002 was \$49.40 per \$1,000 of valuation.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 10: PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable at June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amount available to the District as an advance at June 30, 2003, was \$652,622.

NOTE 11: DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System (SERS)

The 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 general purpose financial statements and required supplementary information for SERS. The 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 District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS; Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$137,256, \$113,856 and \$103,248, respectively. 50% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$68,628, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and the general long-term obligation account group.

B. State Teachers Retirement System (STRS)

The 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 general purpose financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$543,588, \$503,160 and \$479,880, respectively; 82% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$93,454, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, several members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 12: POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$175,690 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002 (the latest information available), the balance in the fund was \$3.011 billion. For the year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten years or more fiscal years of qualifying service credit, 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 8.54% of covered payroll, an increase from 9.8% for fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$12,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$99,867.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002 (the latest information possible), SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 13: NON-CASH TRANSACTIONS

The District received food commodities for its food service obligations. The revenue recognized in grant income from the non-cash commodities was \$44,137.

NOTE 14: INTERFUND ACTIVITY

As of June 30, 2003, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 364,853	\$ 0
Enterprise Fund:		
Food Service	0	18,000
Internal Service	0	346,853
 Total all funds	 \$ 364,853	 \$ 364,853

NOTE 15: STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined by State statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003 the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Totals</u>
	Set-aside reserved balance as of June 30, 2002	\$ (238,495)	\$ 0
Current year set-aside requirement	151,871	151,871	303,742
Current year offsets	0	(105,462)	(105,462)
Qualifying disbursements	(256,471)	(146,101)	(402,572)
 Total	 \$ (343,095)	 \$ (99,692)	 \$ (442,787)
 Set aside balance carried forward to FY 2004	 \$ (343,095)	 \$ 0	
 Set aside reserve balance as of June 30, 2003	 \$ 0	 \$ 0	

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 15: STATUTORY RESERVES (Continued)

Effective April 10, 2003, the Ohio legislature passed Am. Sub. Senate Bill 345, that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from the law. A district may still establish a reserve, if it so chooses.

The District had qualifying disbursements during the year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements for future years.

Although the District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero, this extra amount may not be used to reduce the set-aside requirements for future years.

NOTE 16: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The District maintains enterprise funds to account for the operation of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2003:

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating revenues	\$ 247,233	\$ 28,727	\$ 275,960
Operating expenses, less depreciation	374,709	28,339	403,048
Depreciation expense	6,686	0	6,686
Operating income (loss)	(134,162)	388	(133,774)
Donated commodities	44,137	0	44,137
Nonoperating grants	85,661	0	85,661
Other nonoperating revenue	6,270	0	6,270
Net income	1,906	388	2,294
Net working capital	(34,391)	20,250	(14,141)
Total assets	36,786	20,250	57,036
Total equity	(37,609)	20,250	(17,359)

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTES 17: RISK MANAGEMENT

A. General Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has a comprehensive property and casualty policy with a deductible of \$1,000 per incident on property and \$1,000 per incident on equipment. The District's vehicle insurance policy limit is \$2,000,000 with a \$500 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally, the District carries a \$5,000,000 blanket umbrella policy. The limits of this coverage are \$5,000,000 per occurrence and \$5,000,000 in aggregate. Settlement claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Fidelity Bond

The Board President and Superintendent have a \$20,000 position bond. The Treasurer is covered under a surety bond in the amount of \$100,000. All other school employees who are responsible for handling funds are covered by a \$25,000 fidelity bond, which is a separate policy from the property policy.

C. Workers' Compensation

The District pays the State Workers' Compensation System, an insurance purchasing pool, a premium based on a rate per \$100 of salaries. The District is a member of the Ohio School Board Association Group Rating System, an insurance purchasing pool. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

D. Employee Health Insurance

Medical/surgical insurance, prescription, vision and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool, consisting of fifty members, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf.

The claims liability of \$167,540 reported in the internal service fund at June 30, 2003 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board 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. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTES 17: RISK MANAGEMENT (Continued)

Changes in the fund's claims liability amount in 2003 and 2002 were:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2003	\$ <u>58,812</u>	\$ <u>914,946</u>	\$ <u>806,218</u>	\$ <u>167,540</u>
2002	\$ <u>80,638</u>	\$ <u>809,944</u>	\$ <u>831,770</u>	\$ <u>58,812</u>

The District's claims paid by the OME-RESA Self-Insurance Plan exceeded premiums received from the District. At June 30, 2003, the District owes OME-RESA Self-Insurance Plan \$346,853. Effective July 1, 2003, the District implemented a 30% increase in monthly premium charges to their respective funds in an effort to significantly reduce and/or eliminate the amount owed to OME-RESA Self-Insurance Plan within two years.

NOTE 18: CONTRACTUAL COMMITMENTS

As of June 30, 2003, the District had contractual commitments for a new telephone system:

	<u>Contractual Commitment</u>	<u>Cash Disbursed</u>	<u>Balance 6/30/2003</u>
Expanets (phone system)	\$ <u>116,686</u>	\$ <u>70,012</u>	\$ <u>46,674</u>

NOTE 19: JOINTLY GOVERNED ORGANIZATIONS

A. Tri-County Computer Service Association (TCCSA)

TCCSA is a jointly governed organization comprised of 20 school districts, created as a regional council of governments pursuant to state statute. 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 for member districts. Each of the governments of these districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Education Services Center, which serves as fiscal agent, located in Wooster, Ohio. During the year ended June 30, 2003, the District paid approximately \$73,397.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 19: JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Ashland County-West Holmes Career Center (Career Center)

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

NOTE 20: CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District at June 30, 2003.

B. Litigation

The District is not party to any claims or lawsuits that would have a material effect on the general purpose financial statements.

NOTE 21: STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed ". . . the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient. . ." The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

October 31, 2003

To the Board of Education
Hillsdale Local School District
Jeromesville, OH 44840

Independent Auditor's Report on Compliance and Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

We have audited the financial statements of Hillsdale Local School District (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

October 31, 2003

To the Board of Education
Hillsdale Local School District
Jeromesville, OH 44840

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control
Over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of Hillsdale Local School District (the "District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal program is identified in the "summary of auditor's results" section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Hillsdale Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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 be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of Hillsdale Local School District as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected 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.

This report is intended for the information 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.

Rea & Associates, Inc.

HILLSDALE LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION Passed through Ohio Department of Education						
Title I, Part A						
Elementary and Secondary Education Act	84.010	C1S1-2002	\$ 0		\$ 17,340	
		C1S1-2003	98,389		90,843	
Total Title I			<u>98,389</u>		<u>108,183</u>	
Title VI-B						
	84.027	6BSF-2002-P	1,440		1,598	
		6BSF-2003-P	82,602		82,602	
Total Title VI-B			<u>84,042</u>		<u>84,200</u>	
Title V Innovative Programs						
	84.298	C2S1-2003	6,413		5,613	
Eisenhower Professional Development						
	84.281	MSS1-2001	0		210	
		MSS1-2002	143		0	
Total Eisenhower Professional Development			<u>143</u>		<u>210</u>	
Title VI R Class Reduction						
	84.340	CRS1-2001	0		8,660	
		CRS1-2002	0		2,565	
Total Title VI R Class Reduction			<u>0</u>		<u>11,225</u>	
Safe, Drug-Free Schools & Communities Act Grant						
	84.186	DRS1-2002	0		2,682	
		DRS1-2003	3,268		2,800	
Total Safe, Drug-Free Schools & Communities Act Grant			<u>3,268</u>		<u>5,482</u>	
Title II D Technology						
	84.318	TJS1-2003	754		0	
Raising the Bar Grant						
	84.318	TF53-2001	0		3,373	
Assistive Technology Infusion Project						
	84.352A	ATS	0		88,589	
		ATS3	12,379		12,379	
		ATS4	3,217		0	
			<u>15,596</u>		<u>100,968</u>	
Title II A - Improving Teacher Quality						
	84.367	TRS1-2003	32,466		44,688	
Advanced Placement Program						
	84.330	AVS1 - 2003	50		0	
Total U.S. Department of Education			241,121		363,942	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through Ohio Department of Mental Retardation and Developmental Disabilities						
Medical Assistance Program						
	93.778	FY 2003	3,005		3,005	
Total U.S. Department of Education			3,005		3,005	
U.S. DEPARTMENT OF AGRICULTURE Passed through Ohio Department of Education Nutrition Cluster:						
Food Distribution Program						
	10.550	FY 2003		\$ 35,703		\$ 35,703
National School Lunch Program						
	10.555	LLP4-2003	83,106		83,106	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>83,106</u>	<u>35,703</u>	<u>83,106</u>	<u>35,703</u>
Total Federal Financial Assistance			<u>\$ 327,232</u>	<u>\$ 35,703</u>	<u>\$ 450,053</u>	<u>\$ 35,703</u>

See accompanying notes to schedule of expenditures of federal awards.

HILLSALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2003

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B: NUTRITION CLUSTER

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2003, the School District had no significant food commodities inventory. Reimbursement moneys are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Title 1 Assistive Technology Infusion Project	CFDA # 84.010 CFDA # 84.352A
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

NONE

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE



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HILLSDALE LOCAL SCHOOL DISTRICT

ASHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 18, 2003**