



**Auditor of State
Betty Montgomery**

HARRISON HILLS CITY SCHOOLDISTRICT
HARRISON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	13
Statement of Activities.....	14
Balance Sheet-Governmental Funds	15
Reconciliation of the Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	19
Statement of Net Assets – Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	21
Statement of Cash Flows – Proprietary Fund.....	22
Statement of Fiduciary Net Assets – Fiduciary Fund.....	23
Notes to the Basic Financial Statements	24
Schedule of Federal Award Expenditures.....	49
Notes to the Schedule of Federal Award Expenditures	50
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	51
Independent Accountants' Report on Compliance with Requirements Applicable to Its Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	53
Schedule of Findings	55

This Page Intentionally Left Blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Harrison Hills City School District, Harrison County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Harrison Hills City School District, Harrison County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective cash flows, where applicable and the applicable budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2005 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is Supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 4, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Harrison Hills City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$1,815,491 which represents a 24.96% increase from 2003.
- General revenues accounted for \$13,777,059 in revenue or 83.31% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$2,760,035 or 16.69% of total revenues of \$16,537,094.
- The District had \$14,721,603 in expenses related to governmental activities; \$2,760,035 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$13,777,059 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$13,306,876 in revenues and \$12,380,385 in expenditures. During fiscal 2003, the general fund's fund balance increased \$932,361 from \$3,088,826 to \$4,021,187.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

Reporting the District's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-48 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Assets</u>		
Current and other assets	\$ 12,675,265	\$ 10,631,140
Capital assets	<u>3,597,389</u>	<u>3,768,019</u>
Total assets	<u>16,272,654</u>	<u>14,399,159</u>
<u>Liabilities</u>		
Current liabilities	5,704,300	5,712,519
Long-term liabilities	<u>1,478,034</u>	<u>1,411,811</u>
Total liabilities	<u>7,182,334</u>	<u>7,124,330</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,356,593	3,481,403
Restricted	2,341,823	2,002,410
Unrestricted	<u>3,391,904</u>	<u>1,791,016</u>
Total net assets	<u>\$ 9,090,320</u>	<u>\$ 7,274,829</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$9,090,320. Of this total, \$3,391,904 is unrestricted in use.

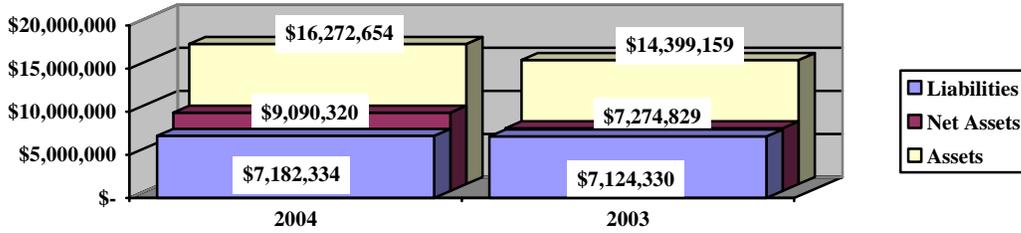
At year-end, capital assets represented 22.11% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$3,356,593. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,341,323, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,391,904 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Governmental Activities



The table below shows the change in net assets for fiscal years 2004 and 2003.

Change in Net Assets

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 516,578	\$ 501,238
Operating grants and contributions	2,196,157	1,939,294
Capital grants and contributions	47,300	69,672
General revenues:		
Property taxes	4,150,447	4,324,580
Grants and entitlements	9,384,812	8,697,076
Investment earnings	66,995	94,299
Other	<u>174,805</u>	<u>76,676</u>
Total revenues	<u>16,537,094</u>	<u>15,702,835</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,294,681	\$ 7,026,586
Special	1,769,237	1,920,150
Vocational	277,546	233,129
Support services:		
Pupil	734,570	681,025
Instructional staff	306,000	372,352
Board of education	134,947	138,873
Administration	1,303,193	1,373,631
Fiscal	424,842	394,938
Operations and maintenance	1,165,038	1,465,348
Pupil transportation	1,076,314	1,053,601
Central	201,767	222,962
Food service operations	726,184	695,660
Operations of non-instructional services	46,498	-
Extracurricular activities	247,957	259,556
Interest and fiscal charges	<u>12,829</u>	<u>11,501</u>
Total expenses	<u>14,721,603</u>	<u>15,849,312</u>
Change in net assets	<u>\$ 1,815,491</u>	<u>\$ (146,477)</u>

Governmental Activities

Net assets of the District's governmental activities increased \$1,815,491. Total governmental expenses of \$14,721,603 were offset by program revenues of \$2,760,035 and general revenues of \$13,777,059. Program revenues supported 18.75% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 81.85% of total governmental revenue.

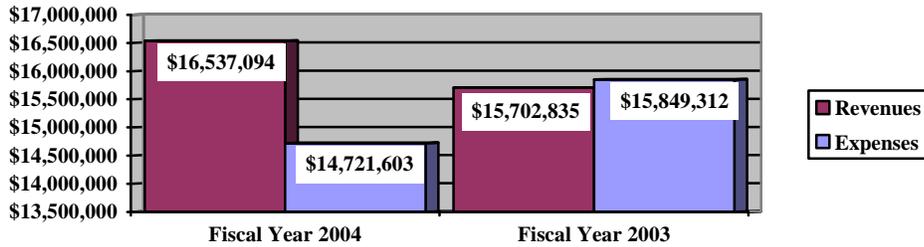
The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,341,464 or 56.66% of total governmental expenses for fiscal 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

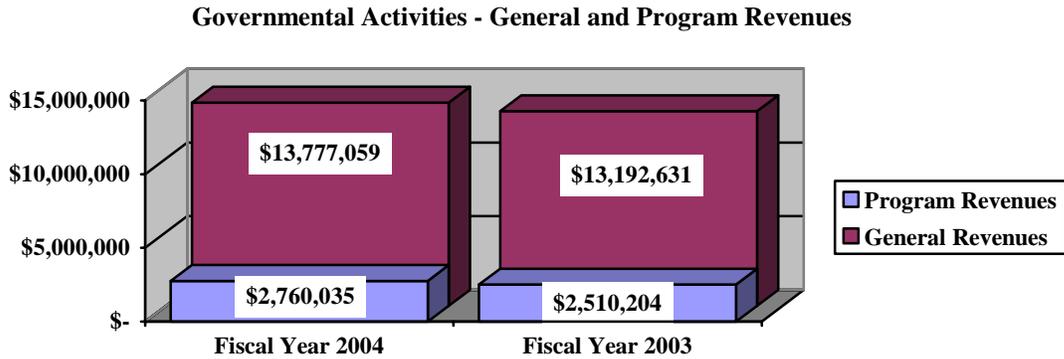
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses				
Instruction:				
Regular	\$ 6,294,681	\$ 5,498,753	\$ 7,026,586	\$ 6,195,826
Special	1,769,237	1,208,145	1,920,150	1,368,923
Vocational	277,546	276,260	233,129	233,129
Support services:				
Pupil	734,570	518,040	681,025	611,031
Instructional staff	306,000	227,409	372,352	285,210
Board of education	134,947	134,447	138,873	138,873
Administration	1,303,193	1,197,504	1,373,631	1,291,649
Fiscal	424,842	424,842	394,938	394,938
Operations and maintenance	1,165,038	1,117,727	1,465,348	1,457,039
Pupil transportation	1,076,314	1,073,775	1,053,601	1,014,998
Central	201,767	163,969	222,962	218,156
Food service operations	726,184	(47,282)	695,660	3,801
Operation of non-instructional	46,498	46,498	-	-
Extracurricular activities	247,957	108,652	259,556	114,034
Interest and fiscal charges	12,829	12,829	11,501	11,501
Total expenses	<u>\$ 14,721,603</u>	<u>\$ 11,961,568</u>	<u>\$ 15,849,312</u>	<u>\$ 13,339,108</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 83.72% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.25%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.



The District's Funds

The District's governmental funds reported a combined fund balance of \$5,079,428, which is higher than last year's total of \$4,018,451. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	<u>Increase</u>	Percentage <u>Change</u>
General	\$ 4,021,187	\$ 3,088,826	\$ 932,361	30.18 %
Other Governmental	<u>1,058,241</u>	<u>929,625</u>	<u>128,616</u>	13.84 %
Total	<u>\$ 5,079,428</u>	<u>\$ 4,018,451</u>	<u>\$ 1,060,977</u>	26.40 %

General Fund

The District's general fund balance increased \$932,361. The increase in fund balance can be attributed to several items related to increasing revenues and decreased expenditures.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u>	<u>2003</u>	<u>Increase</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,743,047	\$ 3,794,796	\$ (51,749)	(1.36) %
Earnings on investments	50,678	65,645	(14,967)	(22.80) %
Extracurricular	5,411	12,603	(7,192)	(57.07) %
Intergovernmental	9,340,104	8,651,757	688,347	7.96 %
Other revenues	<u>167,636</u>	<u>82,317</u>	<u>85,319</u>	103.65 %
Total	<u>\$ 13,306,876</u>	<u>\$ 12,607,118</u>	<u>\$ 699,758</u>	5.55 %
<u>Expenditures</u>				
Instruction	\$ 7,310,039	\$ 7,275,269	\$ 34,770	0.48 %
Support services	4,841,039	4,709,923	131,116	2.78 %
Non-instructional services	36,404	-	36,404	100.00 %
Extracurricular activities	115,136	118,573	(3,437)	(2.90) %
Facilities acquisition and construction	19,118	73,925	(54,807)	(74.14) %
Capital outlay	-	258,458	(258,458)	(100.00) %
Debt service	<u>58,649</u>	<u>44,451</u>	<u>14,198</u>	31.94 %
Total	<u>\$ 12,380,385</u>	<u>\$ 12,480,599</u>	<u>\$ (100,214)</u>	(0.80) %

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original and final budgeted revenues and other financing sources were \$13,377,914. Actual revenues and other financing sources for fiscal 2004 were \$13,801,385. This represents a \$423,471 increase over original and final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$4,309,137 were increased to \$14,652,522 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$13,618,396, which was \$1,034,126 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$3,597,389 invested in land, buildings and improvements, furniture and equipment, vehicles and infrastructure. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 10,561	\$ 10,561
Building and improvements	2,639,536	2,750,368
Furniture and equipment	419,299	375,306
Vehicles	518,082	621,563
Infrastructure	9,911	10,221
Total	<u>\$ 3,597,389</u>	<u>\$ 3,768,019</u>

The overall decrease in capital assets of \$170,630 is due to depreciation expense of \$276,326 exceeding capital outlays of \$105,696 in the fiscal year.

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

Debt Administration

At June 30, 2004, the District had no debt obligations outstanding.

Current Financial Related Activities

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

Presently, the District is in a sound financial position. This has been accomplished by the Board of Education and Administration monitoring its revenues and expenditures in accordance with its financial forecast. The District's current financial forecast for fiscal year 2005 through 2009 shows that the district will have a negative fund balance at the end of fiscal year 2008. However, these projections are based on the most current information and with a projection of what funding will be received from the State in the next biennium budget. Therefore, the status of this forecast could very easily change. The District relies heavily on property taxes and the state foundation program. Therefore, any newly enacted legislation that would cause this revenue to decline could be detrimental to the District's operation. In addition, if any more unfunded state mandates are required, this could also impact the District negatively.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

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

The Ohio School Facilities Commission (OSFC) sent a team into the District to evaluate the District's school buildings. It was determined that all the buildings need replaced. The District began working with the OSFC and was approved, as an exceptional needs District. The District would be required to provide approximately 35% while the state would provide approximately 65% of the funds needed to replace the District's buildings. This plan called for a one campus facility housing Pre-K through 12. However, the District was not successful on its attempt at the ballot, November 2003, to get a bond levy passed for the District's share. Therefore, the district changed its master plan. By working with the OSFC, the plan combined three programs for funding. The new master plan would replace three elementary schools, the junior high and high school. An income tax was then placed on the ballot in March of 2004 to fund the district's portion of the project. However, it was not successful.

While the District is in desperate need of replacing its aging facilities, the permanent improvement levy expires at the end of the 2004 calendar year. Therefore, the District must focus on getting it renewed. These monies are necessary in order for the district to maintain its present facilities until they can be replaced. Once this levy is renewed, the board and administration will once again focus on an OSFC project.

Therefore, it will be necessary for the Board of Education and Administration to continue to carefully and prudently manage the District's resources in order to continue to meet the growing needs of its students.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Roxane Harding, Treasurer, Harrison Hills City School District, P.O. Box 356 - Normal Street, Hopedale, Ohio 43976-0356.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 5,199,063
Cash with fiscal agent	1,595,817
Investments	747,211
Receivables:	
Taxes	4,635,899
Accounts	21,392
Intergovernmental	275,367
Accrued interest	7,547
Prepayments	54,102
Materials and supplies inventory	138,867
Capital assets:	
Land	10,561
Depreciable capital assets, net	3,586,828
Capital assets, net.	3,597,389
 Total assets.	 16,272,654
 Liabilities:	
Accounts payable.	90,717
Accrued wages and benefits	1,265,266
Pension obligation payable.	293,265
Intergovernmental payable	114,942
Deferred revenue	3,608,383
Claims payable	331,727
Long-term liabilities:	
Due within one year.	122,923
Due within more than one year	1,355,111
Total liabilities	7,182,334
 Net Assets:	
Invested in capital assets, net of related debt.	3,356,593
Restricted for:	
Capital projects	776,889
Perpetual care:	
Expendable	103,419
Nonexpendable	289,934
Other purposes	1,171,581
Unrestricted.	3,391,904
Total net assets	\$ 9,090,320

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$ 6,294,681	\$ 35,358	\$ 760,570	\$ -	\$ (5,498,753)
Special	1,769,237	-	561,092	-	(1,208,145)
Vocational	277,546	-	1,286	-	(276,260)
Support services:					
Pupil	734,570	-	216,530	-	(518,040)
Instructional staff	306,000	-	78,591	-	(227,409)
Board of education	134,947	500	-	-	(134,447)
Administration	1,303,193	-	105,689	-	(1,197,504)
Fiscal	424,842	-	-	-	(424,842)
Operations and maintenance	1,165,038	11	-	47,300	(1,117,727)
Pupil transportation	1,076,314	-	2,539	-	(1,073,775)
Central	201,767	-	37,798	-	(163,969)
Operation of non-instructional services:					
Food service operations	726,184	341,404	432,062	-	47,282
Other non-instructional services	46,498	-	-	-	(46,498)
Extracurricular activities	247,957	139,305	-	-	(108,652)
Interest and fiscal charges	12,829	-	-	-	(12,829)
Total governmental activities	<u>\$ 14,721,603</u>	<u>\$ 516,578</u>	<u>\$ 2,196,157</u>	<u>\$ 47,300</u>	<u>(11,961,568)</u>
General Revenues:					
Property taxes levied for:					
					3,784,161
					366,286
					9,384,812
					66,995
					174,805
					13,777,059
					1,815,491
					7,274,829
					\$ 9,090,320

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,726,723	\$ 1,148,641	\$ 3,875,364
Investments	560,226	186,985	747,211
Receivables:			
Taxes	4,237,743	398,156	4,635,899
Accounts	19,311	2,081	21,392
Intergovernmental	-	275,367	275,367
Accrued interest	7,171	376	7,547
Interfund loans	235,018	-	235,018
Prepayments	54,102	-	54,102
Materials and supplies inventory	128,154	10,713	138,867
Restricted assets:			
Equity in pooled cash and cash equivalents	1,323,699	-	1,323,699
Total assets	\$ 9,292,147	\$ 2,022,319	\$ 11,314,466
Liabilities:			
Accounts payable	\$ 62,217	\$ 28,500	\$ 90,717
Accrued wages and benefits	1,060,017	205,249	1,265,266
Compensated absences payable	29,197	2,565	31,762
Pension obligation payable	179,160	16,244	195,404
Intergovernmental payable	98,217	16,725	114,942
Interfund loan payable	-	235,018	235,018
Deferred revenue	3,842,152	459,777	4,301,929
Total liabilities	5,270,960	964,078	6,235,038
Fund Balances:			
Reserved for encumbrances	316,147	191,809	507,956
Reserved for materials and supplies inventory	128,154	10,713	138,867
Reserved for prepayments	54,102	-	54,102
Reserved for tax revenue available for appropriation	396,617	-	396,617
Reserved for BWC refunds	73,694	-	73,694
Reserved for capital acquisition	758,405	-	758,405
Reserved for textbooks	402,182	-	402,182
Reserved for unclaimed monies	2,207	-	2,207
Reserved for endowment	-	289,934	289,934
Unreserved, undesignated (deficit) reported in:			
General fund	1,889,679	-	1,889,679
Special revenue funds	-	(101,010)	(101,010)
Capital projects funds	-	588,816	588,816
Permanent fund	-	77,979	77,979
Total fund balances	4,021,187	1,058,241	5,079,428
Total liabilities and fund balances	\$ 9,292,147	\$ 2,022,319	\$ 11,314,466

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	5,079,428
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,597,389
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			693,546
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			1,264,090
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	1,205,476		
Pension obligation payable	97,861		
Capital lease obligation	240,796		
	1,544,133		
Total			(1,544,133)
Net assets of governmental activities		\$	9,090,320

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES OF FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 3,743,047	\$ 361,649	\$ 4,104,696
Charges for services.	-	339,282	339,282
Earnings on investments.	50,678	5,030	55,708
Extracurricular.	5,411	135,489	140,900
Classroom materials and fees	19,620	15,738	35,358
Other local revenues.	148,016	27,827	175,843
Intergovernmental - State	9,340,104	657,094	9,997,198
Intergovernmental - Federal.	-	1,572,963	1,572,963
Total revenue	<u>13,306,876</u>	<u>3,115,072</u>	<u>16,421,948</u>
Expenditures:			
Current:			
Instruction:			
Regular	5,709,798	792,531	6,502,329
Special.	1,316,906	579,677	1,896,583
Vocational.	283,335	1,286	284,621
Support services:			
Pupil.	575,705	218,095	793,800
Instructional staff	261,092	82,777	343,869
Board of education	134,947	-	134,947
Administration.	1,172,111	107,475	1,279,586
Fiscal	405,914	14,815	420,729
Operations and maintenance.	1,050,262	8,403	1,058,665
Pupil transportation	1,047,959	27,293	1,075,252
Central.	193,049	19,189	212,238
Operation of non-instructional services:			
Food service operations	-	780,660	780,660
Other non-instructional services	36,404	12,661	49,065
Extracurricular activities.	115,136	130,648	245,784
Facilities acquisition and construction	19,118	213,245	232,363
Debt service:			
Principal retirement	45,820	-	45,820
Interest and fiscal charges	12,829	-	12,829
Total expenditures	<u>12,380,385</u>	<u>2,988,755</u>	<u>15,369,140</u>
Excess of revenues under expenditures	<u>926,491</u>	<u>126,317</u>	<u>1,052,808</u>
Other financing sources:			
Proceeds from sale of capital assets.	-	24	24
Total other financing sources.	<u>-</u>	<u>24</u>	<u>24</u>
Net change in fund balances	926,491	126,341	1,052,832
Fund balances at beginning of year	3,088,826	929,625	4,018,451
Increase in reserve for inventory.	5,870	2,275	8,145
Fund balances at end of year.	<u>\$ 4,021,187</u>	<u>\$ 1,058,241</u>	<u>\$ 5,079,428</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	1,052,832
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$276,326) exceeded capital outlays (\$105,696) in the current period.		(170,630)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		8,145
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		104,885
Repayment of capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		45,820
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(138,940)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		913,379
Change in net assets of governmental activities	\$	1,815,491

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES OF
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,596,435	\$ 3,596,435	\$ 3,710,279	\$ 113,844
Earnings on investments	50,079	50,079	51,664	1,585
Extracurricular	6,307	6,307	6,507	200
Classroom materials and fees	18,903	18,903	19,501	598
Other local revenues	86,497	86,497	89,235	2,738
Intergovernmental - State	9,078,769	9,078,769	9,366,153	287,384
Total revenue	<u>12,836,990</u>	<u>12,836,990</u>	<u>13,243,339</u>	<u>406,349</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,855,538	6,205,436	5,864,155	341,281
Special	408,717	1,320,747	1,291,689	29,058
Vocational	92,177	297,334	291,312	6,022
Support services:				
Pupil	191,493	661,936	605,185	56,751
Instructional staff	82,253	369,953	259,949	110,004
Board of education	50,938	169,323	160,983	8,340
Administration	396,963	1,361,400	1,254,543	106,857
Fiscal	136,902	447,343	432,660	14,683
Operations and maintenance	349,534	1,134,605	1,104,652	29,953
Pupil transportation	360,487	1,175,631	1,139,266	36,365
Central	64,771	271,585	204,699	66,886
Operation of non-instructional services	11,219	35,459	35,457	2
Extracurricular activities	37,745	134,575	119,286	15,289
Facilities acquisition and construction	96,822	518,628	305,993	212,635
Total expenditures	<u>4,135,559</u>	<u>14,103,955</u>	<u>13,069,829</u>	<u>1,034,126</u>
Excess of revenues over (under) expenditures	<u>8,701,431</u>	<u>(1,266,965)</u>	<u>173,510</u>	<u>1,440,475</u>
Other financing sources (uses):				
Transfers in	447,652	447,652	461,822	14,170
Transfers (out)	(146,130)	(461,822)	(461,822)	-
Advances in	53,555	53,555	55,250	1,695
Advances (out)	(27,448)	(86,745)	(86,745)	-
Refund of prior year expenditure	39,717	39,717	40,974	1,257
Total other financing sources (uses)	<u>367,346</u>	<u>(7,643)</u>	<u>9,479</u>	<u>17,122</u>
Net change in fund balance	9,068,777	(1,274,608)	182,989	1,457,597
Fund balance at beginning of year	3,106,902	3,106,902	3,106,902	-
Prior year encumbrances appropriated	683,317	683,317	683,317	-
Fund balance at end of year	<u>\$ 12,858,996</u>	<u>\$ 2,515,611</u>	<u>\$ 3,973,208</u>	<u>\$ 1,457,597</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 1,595,817
Total assets	1,595,817
Liabilities:	
Claims payable	331,727
Total liabilities	331,727
Net assets:	
Unrestricted.	1,264,090
Total net assets	\$ 1,264,090

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 2,479,136
Total operating revenues	<u>2,479,136</u>
Operating expenses:	
Fringe benefits	193,476
Claims.	<u>1,382,542</u>
Total operating expenses	<u>1,576,018</u>
Operating income	<u>903,118</u>
Nonoperating revenues:	
Interest revenue.	<u>10,261</u>
Total nonoperating revenues	<u>10,261</u>
Change in net assets.	913,379
Net assets at beginning of year	<u>350,711</u>
Net assets at end of year	<u><u>\$ 1,264,090</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 2,479,136
Cash payments for fringe benefits.	(193,476)
Cash payments for claims.	<u>(1,560,481)</u>
Net cash provided by operating activities	<u>725,179</u>
Cash flows from investing activities:	
Interest received	<u>10,261</u>
Net cash provided by investing activities	<u>10,261</u>
Net increase in cash and cash equivalents	735,440
Cash and cash equivalents at beginning of year. . .	<u>860,377</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,595,817</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 903,118
Changes in assets and liabilities: Decrease in claims payable	<u>(177,939)</u>
Net cash provided by operating activities	<u><u>\$ 725,179</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 70,515
Receivables:	
Accounts	758
Total assets	\$ 71,273
Liabilities:	
Accounts payable	\$ 1,424
Due to students	69,849
Total liabilities	\$ 71,273

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1971 through the consolidation of existing land areas and school districts. The District serves an area approximately 386 square miles. It is located primarily in Harrison County, however small portions of the District are located in Carroll County, Tuscarawas County, Belmont County, and Jefferson County. The District is the 265th largest in the State of Ohio (among 613 public school districts) in terms of enrollment. It is staffed by 110 non-certificated employees, 163 certificated employees, and 11 administrators who provide services to 2,118 students and other community members. The District currently operates 8 instructional buildings, 1 administrative building, and 1 garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

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

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

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

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

Belmont Harrison Joint Vocational School

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUND

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

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

FIDUCIARY FUND

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of Budgetary Control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons of the fund and fund level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Ed.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to federal agency securities, certificates of deposit, investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$50,678, which includes \$7,928 assigned from other funds.

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

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

G. Inventory

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District records reserves for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of materials and supplies, prepayments, tax revenue unavailable for appropriation, Bureau of Workers' Compensation (BWC) refunds, capital acquisition, textbooks, unclaimed monies and perpetual care. The reserve for property tax advance unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Operating Revenues and Expenses

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

N. Net Assets

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

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

O. Prepayments

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

P. Estimates

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

Q. Restricted Assets

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

R. Interfund Activity

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
District Managed Activities	\$ 170,209
Management Information Systems	153
Disadvantaged Pupil Impact Aid	37,774
Preschool	1,219
Improving Teacher Quality	993

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

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;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash with Fiscal Agent: The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2004, was \$1,595,817.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$(52,726) and the bank balance was \$420,413. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Of the bank balance:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

1. \$124,413 was covered by federal depository insurance deposited with the District; and
2. \$296,000 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Reported Amount	Fair Value
Repurchase agreement	\$ 158,975	\$ 158,975	\$ 158,975
Federal agency securities	747,211	747,211	747,211
	\$ 906,186		
Investments in STAR Ohio		5,163,329	5,163,329
Total investments		\$ 6,069,515	\$ 6,069,515

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 6,865,395	\$ 747,211
Investments of the cash management pool:		
Repurchase agreement	(158,975)	158,975
Investment in STAR Ohio	(5,163,329)	5,163,329
Cash with fiscal agent	<u>(1,595,817)</u>	<u>-</u>
GASB Statement No. 3	<u><u>\$ (52,726)</u></u>	<u><u>\$ 6,069,515</u></u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 235,018

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Harrison, Carroll, Tuscarawas, Belmont and Jefferson Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$396,617 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$363,849 in the general fund.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<u>2003 Second Half Collections</u>		<u>2004 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 130,318,960	78.89	\$ 145,435,890	81.75
Public utility personal	15,918,080	9.64	15,872,280	8.92
Tangible personal property	<u>18,942,170</u>	<u>11.47</u>	<u>16,588,026</u>	<u>9.33</u>
Total	<u>\$ 165,179,210</u>	<u>100.00</u>	<u>\$ 177,896,196</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$	37.75	\$	37.75

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 4,635,899
Accounts	21,392
Intergovernmental	275,367
Accrued interest	<u>7,547</u>
Total	<u>\$ 4,940,205</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
Total capital assets, not being depreciated	<u>10,561</u>	<u>-</u>	<u>-</u>	<u>10,561</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	8,333,205	-	-	8,333,205
Furniture and equipment	1,201,033	105,696	-	1,306,729
Vehicles	1,289,569	-	-	1,289,569
Infrastructure	<u>23,230</u>	<u>-</u>	<u>-</u>	<u>23,230</u>
Total capital assets, being depreciated	<u>10,847,037</u>	<u>105,696</u>	<u>-</u>	<u>10,952,733</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(5,582,837)	(110,832)	-	(5,693,669)
Furniture and equipment	(825,727)	(61,703)	-	(887,430)
Vehicles	(668,006)	(103,481)	-	(771,487)
Infrastructure	<u>(13,009)</u>	<u>(310)</u>	<u>-</u>	<u>(13,319)</u>
Total accumulated depreciation	<u>(7,089,579)</u>	<u>(276,326)</u>	<u>-</u>	<u>(7,365,905)</u>
Governmental activities capital assets, net	<u>\$ 3,768,019</u>	<u>\$ (170,630)</u>	<u>\$ -</u>	<u>\$ 3,597,389</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 110,642
Special	21,857
Vocational	3,424
 <u>Support Services:</u>	
Pupil	1,161
Instructional staff	2,273
Administration	14,274
Fiscal	643
Operations and maintenance	2,911
Pupil transportation	107,789
Central	6,506
Extracurricular activities	2,673
Food service operations	<u>2,173</u>
 Total depreciation expense	 <u><u>\$ 276,326</u></u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$336,545. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in fiscal year 2004 totaled \$45,820 and \$12,829, respectively, in the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 57,155
2006	52,674
2007	52,674
2008	50,994
2009	42,594
2010	<u>14,198</u>
Total minimum lease payments	270,289
Less amount representing interest	<u>(29,493)</u>
Total	<u>\$ 240,796</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Capital lease obligation	\$ 286,616	\$ -	\$ (45,820)	\$ 240,796	\$ 46,778
Compensated absences	<u>1,125,195</u>	<u>241,727</u>	<u>(129,684)</u>	<u>1,237,238</u>	<u>76,145</u>
Total long-term obligations, governmental activities	<u>\$ 1,411,811</u>	<u>\$ 241,727</u>	<u>\$ (175,504)</u>	<u>\$ 1,478,034</u>	<u>\$ 122,923</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$16,010,658 and an unvoted debt margin of \$177,896.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

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

<u>Employee Status</u>	<u>Maximum Allowable Sick Leave Balance (Days)</u>	<u>Paid at 1/4 of Unused Sick Leave Balance</u>	<u>Paid at 1/8 of Unused Sick Leave Balance</u>	<u>Total Allowable Maximum Severance (Days)</u>
Classified	273	First 133 Days	Any Balance Over 133 Days	51
Office Staff	294	First 142 Days	Any Balance Over 142 Days	55
Administrative	316	First 146 Days	Any Balance Over 146 Days	58
Certified	310	First 144 Days	Any Balance Over 144 Days	57

A. Life Insurance

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

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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

<u>Description</u>	<u>Amount</u>
Building and Contents - replacement cost (\$5,000 deductible)	\$39,406,500
Inland Marine Coverage (\$500 deductible)	399,930
Boiler and Machinery (\$5,000 deductible)	39,406,500
Crime Insurance	10,000
Musical Instruments	314,430

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - RISK MANAGEMENT - (Continued)

Coverage provided by Utica Insurance is as follows:

General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000

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

B. Workers' Compensation

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

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

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

Medical/surgical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 49 school districts within the OME-RESA consortium, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf. The claims liability of \$331,727 reported in the internal service fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 509,666	\$ 1,382,542	\$ (1,560,481)	\$ 331,727
2003	680,030	2,432,951	(2,603,315)	509,666

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$233,833, \$218,926, and \$219,109, respectively; 53.78% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$108,072, represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 10% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$959,625, \$926,792, \$865,906, respectively; 82.48% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$168,124, represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$68,545 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$368,739,000 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. 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 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223, 443, 805 million and the target level was \$355.2 million. At June 30, 2004, had net assets available for SERS payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$113,727 during the 2004 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 182,989
Net adjustment for revenue accruals	63,537
Net adjustment for expenditure accruals	49,493
Net adjustment for other sources/uses	(9,479)
Adjustment for encumbrances	<u>639,951</u>
GAAP basis	<u>\$ 926,491</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not a party to legal proceedings at June 30, 2004.

C. 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 plan 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2003	\$ 220,624	\$ 687,127	\$ 73,694
Current year set-aside requirement	230,911	230,911	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(49,353)</u>	<u>(159,633)</u>	<u>-</u>
Total	<u>\$ 402,182</u>	<u>\$ 758,405</u>	<u>\$ 73,694</u>
Cash balance carried forward to FY 2005	<u>\$ 402,182</u>	<u>\$ 758,405</u>	<u>\$ 73,694</u>

A schedule of the restricted assets at June 30, 2004 follows:

Amount restricted for BWC refunds	\$ 73,694
Amount restricted for textbooks	402,182
Amount restricted for capital acquisition	<u>758,405</u>
Total restricted assets	<u>\$ 1,234,281</u>

HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	03-PU-04	10.550		\$67,809		\$67,809
National School Breakfast Program	05-PU-04	10.553	\$94,278		\$94,278	
National School Lunch Program	04-PU-04	10.555	256,075		256,075	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>350,353</u>	<u>67,809</u>	<u>350,353</u>	<u>67,809</u>
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to State (IDEA Part B)	6B-SF-2003P	84.027	37,666		69,664	
	6B-SF-2004		<u>306,898</u>		<u>323,279</u>	
Total Special Education Grants to State			344,564		392,943	
Preschool Grant	PG-S1-2004	84.173	15,617		15,883	
Total Special Education Cluster			<u>360,181</u>		<u>408,826</u>	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2003	84.010	54,075		104,261	
	C1-S1-2004		<u>530,960</u>		<u>528,545</u>	
Total ESEA Title I			585,035		632,806	
Drug Free School Grant	DR-S1-2001	84.186			62	
	DR-S1-2003		(6,068)		2,807	
	DR-S1-2004		<u>23,764</u>		<u>24,430</u>	
Total Drug Free School Grant			17,696		27,299	
Innovative Educational Program Strategies	C2-S1-2003	84.298	713		726	
	C2-S1-2004		<u>9,450</u>		<u>8,493</u>	
Total Innovative Educational Program Strategies			10,163		9,219	
Title II D Grant	TJ-S1-2003	84.318	(2,135)		581	
	TJ-S1-2004		<u>16,748</u>		<u>14,890</u>	
			14,613		15,471	
Title II A Improving Teacher Quality Program	TR-S1-2003	84.367	(16,619)		17,916	
	TR-S1-2004		<u>150,578</u>		<u>150,275</u>	
			133,959		168,191	
Goals 2000 Continuous Improvement Grant	G2-S1-01	84.276			35	
Total U.S. Department of Education			<u>1,121,647</u>		<u>1,261,847</u>	
U.S. Department of Health and Human Services						
<i>Passed Through Ohio Department of MRDD:</i>						
Community Alternative Funding System (CAFS)	FY04	93.778	<u>35,928</u>		<u>49,041</u>	
Total Federal Awards			<u><u>\$1,507,928</u></u>	<u><u>\$67,809</u></u>	<u><u>\$1,661,241</u></u>	<u><u>\$67,809</u></u>

The notes to the schedule of federal awards expenditures are an integral part of this schedule.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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

This Page Intentionally Left Blank.



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Harrison Hills City School District, Harrison County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 4, 2005. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report 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 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 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 operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated January 4, 2005.

Harrison Hills City School District
Harrison County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, Board of Education, 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.

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

Betty Montgomery
Auditor of State

January 4, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Harrison Hills City School District, Harrison County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Harrison Hills City School District, Harrison County, Ohio, 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, 2004.

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. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 4, 2005.

This report is intended for the information and use of the audit committee, management, the Board of Education, 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.



Betty Montgomery
Auditor of State

January 4, 2005

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(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 other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs:	Title I ESEA CFDA # 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**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	
-------------	--



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

HARRISON HILLS CITY SCHOOL DISTRICT

HARRISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED

MARCH 17, 2005