



**Auditor of State
Betty Montgomery**

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Rolling Hills Local School District
Guernsey County
P.O. Box 38
Byesville, Ohio 43723

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 Rolling Hills Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Rolling Hills Local School District, Guernsey County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is 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. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as 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

June 2, 2005

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of the Rolling Hills Local School District's (the School District), financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School 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 School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- Net assets of governmental activities decreased \$450,529.
- General revenues accounted for \$14,095,605 in revenue or 80 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$3,449,021, 20 percent of total revenues of \$17,594,626.
- Total assets of governmental activities decreased \$861,550 primarily due to decreases in cash and cash equivalents.
- The School District had \$18,045,155 in expenses related to governmental activities; only \$3,499,021 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$14,095,065 were not adequate enough to provide for the remainder of these activities.
- The School District has two major funds; the General Fund and the Debt Service Fund. The General Fund had \$14,663,445 in revenues and \$14,888,870 in expenditures. The General Fund's balance decreased \$434,782. The Debt Service had \$526,970 in revenues and \$608,332 in expenditures. The Debt Service Fund's balance decreased \$31,362.

Using this Annual Financial Report

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 Rolling Hills Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 as the School District's most significant funds with all other non-major funds presented in total in one column.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

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

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, debt service, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major Governmental Funds are the General Fund and the Debt Service Fund.

Governmental Funds Most of the School 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 fiscal 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 statements provide a detailed short-term view of the School District's general governmental 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 financial statements.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Current and Other Assets	\$8,874,075	\$9,712,758
Capital Assets	13,836,046	13,858,913
Total Assets	<u>22,710,121</u>	<u>23,571,671</u>
Liabilities		
Long-Term Liabilities	(2,550,595)	(2,995,855)
Other Liabilities	(6,574,175)	(6,539,936)
Total Liabilities	<u>(9,124,770)</u>	<u>(9,535,791)</u>
Net Assets		
Invested in Capital Assets, Net of Debt	12,111,046	11,708,913
Restricted	1,580,057	1,632,028
Unrestricted (Deficit)	(105,752)	694,939
Total Net Assets	<u>\$13,585,351</u>	<u>\$14,035,880</u>

Total assets decreased \$861,550. This is primarily from cash and cash equivalents decreasing by \$664,580 from fiscal year 2003.

Total liabilities decreased \$411,021. The decrease in the Energy Conservation Loan Payable and General Obligation Bonds in the amounts of \$100,000 and \$325,000 respectively accounted for a portion of this decrease. Deferred revenue also decreased \$140,797 as a result of more grant monies being received by fiscal year end than in the previous fiscal year. These decreases were offset by slight increases in accrued wages and benefits and intergovernmental payable.

Total Net Assets decreased \$450,529 for the reasons stated above. Specifically, unrestricted net assets decreased by \$800,691 primarily as a result of a decline in the General Fund's cash balance.

Table 2 shows the changes in net assets for fiscal year 2004, and comparisons to fiscal year 2003.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2
Change in Net Assets

Revenues	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Program Revenues		
Charges for Services	\$1,049,855	\$668,319
Operating Grants and Contributions	2,321,356	2,220,286
Capital Grants and Contributions	127,810	55,310
Total Program Revenues	<u>3,499,021</u>	<u>2,943,915</u>
General Revenue		
Property Taxes	5,631,409	5,454,338
Grants and Entitlements	8,370,698	8,185,968
Investment Earnings	73,342	113,442
Miscellaneous	20,156	28,122
Total General Revenues	<u>14,095,605</u>	<u>13,781,870</u>
Total Revenues	<u>17,594,626</u>	<u>16,725,785</u>
 Program Expenses		
Instruction		
Regular	8,551,270	7,352,381
Special	1,000,009	1,084,239
Vocational	390,952	375,335
Adult/Continuing	0	3,522
Support Services		
Pupils	743,748	738,979
Instructional Staff	1,352,671	1,406,597
Board of Education	42,758	32,749
Administration	1,256,519	1,231,293
Fiscal	505,024	434,844
Operation and Maintenance of Plant	1,672,589	1,570,458
Pupil Transportation	927,162	880,487
Central	87,794	90,909
Operation of Non-Instructional Services:		
Food Service Operations	993,053	876,079
Other Non-Instructional Services	18,134	15,432
Extracurricular Activities	336,960	325,074
Interest	166,512	202,724
Total Expenses	<u>18,045,155</u>	<u>16,621,102</u>
Increase in Net Assets	<u>(\$450,529)</u>	<u>\$104,683</u>

The School District had an increase from fiscal year 2003 to fiscal year 2004 in charges for services. This increase of \$381,536 is largely attributed to the School District changing their method of posting open enrollment. In prior years the School District posted open enrollment net. Beginning in fiscal year 2004 the School District began to post open enrollment at gross.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 32 percent of revenues for governmental activities for Rolling Hills Local School District in fiscal year 2004.

Despite the School District receiving revenues from GAP Aid, the passage of House Bill 95 has had a detrimental affect on the School District. While the School District operates a very tight budget, revenue sources are not projected to keep pace with expenditures. In addition, the passage of any future levies would cause the School District to lose State funding through GAP Aid. Enrollment also is a factor in the finances of the School District. The School District lost approximately \$255,000 in outgoing open enrollment in fiscal year 2004.

Instructional programs comprise approximately 55 percent of total governmental program expenses. Of the instructional expenses, approximately 86 percent is for regular instruction, 10 percent for special instruction, and 4 percent for vocational instruction.

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. Table 3 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 entitlements.

Table 3
 Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Instruction:				
Regular	\$8,551,270	\$7,913,913	\$7,352,381	\$6,993,814
Special	1,000,009	(58,436)	1,084,239	165,683
Vocational	390,952	310,565	375,335	299,957
Adult/Continuing	0	0	3,522	3,522
Support Services:				
Pupils	743,748	542,485	738,979	590,266
Instructional Staff	1,352,671	983,402	1,406,597	973,752
Board of Education	42,758	42,758	32,749	32,749
Administration	1,256,519	1,245,715	1,231,293	1,222,289
Fiscal	505,024	505,024	434,844	434,844
Operation and Maintenance of Plant	1,672,589	1,617,445	1,570,458	1,519,297
Pupil Transportation	927,162	825,733	880,487	831,190
Central	87,794	83,502	90,909	76,395
Operation of Non-Instructional Services:				
Food Service Operation	993,053	152,693	876,079	88,059
Other Non-Instructional Services	18,134	3,137	15,432	133
Extracurricular Activities	336,960	211,686	325,074	242,513
Interest	166,512	166,512	202,724	202,724
Total Expenses	\$18,045,155	\$14,546,134	\$16,621,102	\$13,677,187

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 81 percent of the School District's activities being supported primarily through taxes and intergovernmental revenues. Nineteen percent of total governmental activities are supported by program revenues in the form of charges for services, operating grants, capital grants, interest and contributions.

The School District's Major Funds

The School District has two major funds: the General Fund and the Debt Service Fund. The School District's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$14,663,445 and expenditures of \$14,888,870. The Debt Service Fund had total revenues of \$526,970 and expenditures of \$608,332.

General Fund Budgeting Highlights

The School 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 School District amended its General Fund appropriations although none were significant.

Budget basis revenue was \$14,602,510 compared to final estimates of \$14,189,221. Of this \$413,289 difference, most was due to conservative property tax revenue and tuition and fees estimates.

The School District's ending unobligated General Fund balance was \$321,860.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$13,836,046 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 4
Capital Assets at June 30
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$218,502	\$218,502
Land Improvements	188,242	195,170
Buildings and Improvements	12,177,778	12,219,722
Furniture and Equipment	425,676	366,835
Vehicles	825,848	858,684
Totals	<u><u>\$13,836,046</u></u>	<u><u>\$13,858,913</u></u>

During fiscal year 2004, the School District purchased land improvements, buildings and improvements, furniture and equipment, and vehicles. See Note 9 for additional information regarding capital assets.

Debt

At June 30, 2004, the School District had \$1,625,000 in 1985 general obligation bonds outstanding, \$325,000 due within one year. The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2009. In addition the School District had \$100,000 outstanding in Energy Conservation Loans Payable. See Note 15 for more detailed information of the School District's debt.

Set-asides

For fiscal year 2004, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2004, this amounted to \$292,352 for each set aside. For fiscal year 2004, the School District had qualifying disbursements or offsets exceeding the \$292,352 requirement for capital maintenance. However a portion of the requirement for textbooks and instructional materials had to be set-aside and carried forward to future years. See Note 19 for more detailed information of the School District's set-asides.

Economic Factors

The School District did not end fiscal year 2004 with a positive cash flow. This is the fifth straight year that the School District has experienced a negative cash flow. However, the School District's five year forecast which was submitted to the Ohio Department of Education in May 2005 is forecasting a \$925,661 deficit at the end of fiscal year 2006. The School District is placing a levy on the August 2005 ballot. Based on these factors, the board of education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to maintain the financial stability of the School District.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Jeffrey Walters, Treasurer/CFO at Rolling Hills Local School District, P.O. Box 38, Byesville, Ohio 43723.

Rolling Hills Local School District, Ohio

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,465,706
Accounts Receivable	10,255
Intergovernmental Receivable	309,098
Prepaid Items	195,989
Inventory Held for Resale	9,809
Materials and Supplies Inventory	137,196
Accrued Interest Receivable	3,120
Property and Other Local Taxes Receivable	5,742,902
Nondepreciable Capital Assets	218,502
Depreciable Capital Assets, Net	<u>13,617,544</u>
Total Assets	<u>22,710,121</u>
Liabilities	
Accounts Payable	68,893
Accrued Wages and Benefits	1,825,948
Matured Compensated Absences	41,522
Special Termination Benefits Payable	20,000
Accrued Interest Payable	12,045
Intergovernmental Payable	481,516
Claims Payable	251,400
Deferred Revenue	3,872,851
Long-Term Liabilities:	
Due Within One Year	496,639
Due In More Than One Year	<u>2,053,956</u>
Total Liabilities	<u>9,124,770</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,111,046
Restricted for:	
Capital Projects	4,953
Debt Service	876,447
Other Purposes	698,657
Unrestricted (Deficit)	<u>(105,752)</u>
Total Net Assets	<u><u>\$13,585,351</u></u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$5,173,540	\$482,075	\$57,678	\$5,713,293
Intergovernmental	9,052,984	44,895	1,729,857	10,827,736
Interest	46,816	0	0	46,816
Tuition and Fees	366,528	0	0	366,528
Extracurricular Activities	0	0	234,191	234,191
Rentals	5,626	0	49,518	55,144
Charges for Services	0	0	392,052	392,052
Contributions and Donations	0	0	6,316	6,316
Miscellaneous	17,951	0	2,205	20,156
Total Revenues	14,663,445	526,970	2,471,817	17,662,232
Expenditures				
Current:				
Instruction:				
Regular	7,524,038	0	307,683	7,831,721
Special	893,908	0	551,827	1,445,735
Vocational	394,236	0	0	394,236
Support Services:				
Pupils	511,078	0	207,244	718,322
Instructional Staff	927,401	0	384,425	1,311,826
Board of Education	42,967	0	0	42,967
Administration	1,211,320	0	12,314	1,223,634
Fiscal	478,113	14,055	2,434	494,602
Operation and Maintenance of Plant	1,564,360	0	144,206	1,708,566
Pupil Transportation	852,916	0	16,429	869,345
Central	67,839	0	22,061	89,900
Operation of Non-Instructional Services:				
Food Service Operations	0	0	948,593	948,593
Other Non-Instructional Services	0	0	18,134	18,134
Extracurricular Activities	96,013	0	245,553	341,566
Capital Outlay	324,681	0	76,718	401,399
Debt Service:				
Principal Retirement	0	425,000	0	425,000
Interest and Fiscal Charges	0	169,277	0	169,277
Total Expenditures	14,888,870	608,332	2,937,621	18,434,823
Excess of Revenues Over/(Under) Expenditures:	(225,425)	(81,362)	(465,804)	(772,591)
Other Financing Sources/(Uses)				
Proceeds from Sale of Fixed Assets	10,275	0	0	10,275
Transfers In	0	50,000	169,632	219,632
Transfers Out	(219,632)	0	0	(219,632)
Total Other Financing Sources (Uses)	(209,357)	50,000	169,632	10,275
Net Change in Fund Balances	(434,782)	(31,362)	(296,172)	(762,316)
Fund Balances Beginning of Year	777,443	880,714	440,117	2,098,274
Fund Balances End of Year	\$342,661	\$849,352	\$143,945	\$1,335,958

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
*Reconciliation of the Net Change 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 (\$762,316)

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

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 exceeded capital outlay in the current year:

Capital Assets Additions	670,945	
Current Year Depreciation	<u>(675,119)</u>	(4,174)

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

Property Taxes	(81,884)	
Tuition and Fees	1,940	
Intergovernmental	<u>(14,188)</u>	(94,132)

Governmental funds only report the disposal of capital assets to the extent proceeds in the amount of \$10,275 were received. In the statement of activities, a loss has been reported for \$8,418. These amounts are used as a reconciling item between the statement of activities and the fund financial statements. (18,693)

Some expenses reported on the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(32,832)	
Special Termination Benefits	10,000	
Compensated Absences	<u>20,260</u>	(2,572)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 425,000

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. 2,765

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. The net change of the internal service fund is reported with governmental activities. 3,593

Change in Net Assets of Governmental Activities (\$450,529)

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Taxes	\$4,859,684	\$4,824,684	\$5,082,513	\$257,829
Intergovernmental	9,181,418	9,199,037	9,076,115	(122,922)
Interest	100,000	100,000	48,449	(51,551)
Tuition and Fees	37,000	37,000	371,942	334,942
Rent	6,500	6,500	5,626	(874)
Miscellaneous	22,000	22,000	17,865	(4,135)
Total Revenues	14,206,602	14,189,221	14,602,510	413,289
Expenditures				
Current:				
Instruction:				
Regular	7,317,251	7,307,104	7,571,183	(264,079)
Special	701,082	701,082	915,812	(214,730)
Vocational	391,883	391,883	412,920	(21,037)
Adult/Continuing	3,600	3,600	0	3,600
Support Services:				
Pupils	592,637	592,637	513,479	79,158
Instructional Staff	1,199,311	1,206,930	930,462	276,468
Board of Education	42,078	42,078	43,808	(1,730)
Administration	1,211,488	1,211,488	1,222,168	(10,680)
Fiscal	465,434	465,434	477,344	(11,910)
Operation and Maintenance of Plant	1,573,096	1,573,096	1,613,685	(40,589)
Pupil Transportation	873,666	873,666	911,535	(37,869)
Central	61,433	61,433	67,824	(6,391)
Extracurricular Activities	93,657	93,657	95,755	(2,098)
Capital Outlay	4,204	4,204	349,502	(345,298)
Total Expenditures	14,530,820	14,528,292	15,125,477	(597,185)
Excess of Revenues Over/(Under) Expenditures	(324,218)	(339,071)	(522,967)	(183,896)
Other Financing Sources/(Uses)				
Proceeds from Sale of Fixed Assets	5,000	5,000	10,275	5,275
Refund of Prior Year Expenditures	0	0	75	75
Advances In	0	0	2,173	2,173
Advances Out	0	0	(95,395)	(95,395)
Transfers Out	(200,000)	(200,000)	(219,632)	(19,632)
Refund of Prior Year Receipts	0	0	(11,477)	(11,477)
Total Other Financing Sources (Uses)	(195,000)	(195,000)	(313,981)	(118,981)
Net Change in Fund Balance	(519,218)	(534,071)	(836,948)	(302,877)
Fund Balance Beginning of Year	881,519	881,519	881,519	0
Prior Year Encumbrances Appropriated	277,289	277,289	277,289	0
Fund Balance End of Year	\$639,590	\$624,737	\$321,860	(\$302,877)

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2004

	Medical-Dental-Prescription Self-Insurance
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$718,467
Total Assets	<u>718,467</u>
Current Liabilities	
Claims Payable	251,400
Total Liabilities	<u>251,400</u>
Net Assets	
Unrestricted	<u>\$467,067</u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Medical-Dental-Prescription Self-Insurance
Operating Revenues	
Charges for Services	\$2,470,351
Operating Expenses	
Purchased Services	78,987
Claims	2,414,297
Total Operating Expenses	2,493,284
Operating Loss	(22,933)
Non-Operating Revenues	
Interest Income	26,526
Change in Net Assets	3,593
Net Assets at Beginning of Year	463,474
Net Assets at End of Year	\$467,067

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2004

	<u>Medical-Dental-Prescription Self-Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,470,351
Cash Payments to Suppliers for Services	(78,987)
Cash Payments for Claims	<u>(2,396,397)</u>
Net Cash Used for Operating Activities	(5,033)
Cash Flows from Investing Activities	
Interest on Investments	<u>26,526</u>
Net Increase in Cash and Cash Equivalents	21,493
Cash and Cash Equivalents Beginning of Year	<u>696,974</u>
Cash and Cash Equivalents End of Year	<u><u>\$718,467</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$22,933)
Changes in Liabilities	
Increase in Claims Payable	<u>17,900</u>
Net Cash Used for Operating Activities	<u><u>(\$5,033)</u></u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Private Purpose Trust	Agency
	<hr/>	<hr/>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,967	\$24,699
Cash and Cash Equivalents in Segregated Accounts	0	2,035
Investments	7,133	0
	<hr/>	<hr/>
Total Assets	10,100	\$26,734
	<hr/>	<hr/>
Liabilities		
Due to Students	0	\$18,517
Undistributed Monies	0	8,217
	<hr/>	<hr/>
Total Liabilities	0	\$26,734
	<hr/>	<hr/>
Net Assets		
Held in Trust for Scholarships	\$10,100	
	<hr/>	

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust
Additions	
Interest	\$242
Deductions	
Payments in Accordance with Trust Agreements	1,202
Change in Net Assets	(960)
Net Assets Beginning of Year	11,060
Net Assets End of Year	\$10,100

See accompanying notes to the basic financial statements

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Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

Rolling Hills Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five member Board of Education. The School District provides educational services as authorized by its charter and further mandated by state and federal agencies. This Board controls the School District's six instructional support facilities staffed by 92 classified employees and 145 certificated teaching and administrative personnel who provide services to 2,196 students.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Rolling Hills Local School District, this includes general operations, food service, and student related activities of the School District.

Within the School District boundaries, Community Christian School is operated through Calvary Baptist Church. Current state legislation provides funding to this parochial school. These monies are received and disbursed by the School District on behalf of the parochial school and transportation is provided to their students. This activity is reflected in a special revenue fund for financial reporting purposes.

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

The School District participates in five jointly governed organizations and two group insurance purchasing pools. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Mid-East Career and Technology Centers, the Metropolitan Educational Council, the East Central Ohio Special Education Regional Resource Center, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. Additional information concerning these organizations is presented in Notes 16 and 17.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School 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 internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of Governmental Fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The Internal Service Fund is presented in a single column on the face of the Proprietary Fund statements. Fiduciary Funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal 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 General Fund and the Debt Service Fund are the major funds of the School District.

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

Debt Service Fund The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond/loan principal, interest, and related costs.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The other Governmental Funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund Type Proprietary Fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary Funds are classified as Enterprise or Internal Service; the School District has no Enterprise Funds.

Internal Service Fund The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only Internal Service Fund accounts for the operation of the School District's self-insurance program for employee medical/surgical, prescription drug, and dental claims.

Fiduciary Fund Types Fiduciary Fund reporting focuses on net assets and changes in net assets. The Fiduciary Fund category is split into four classifications: Pension Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds and Agency Funds. Trust Funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's Private Purpose Trust Fund accounts for a college scholarship program for eligible students. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's Agency Funds account for faculty and student managed activities and payroll withholdings.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements 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 Proprietary 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 School District finances and meets the cash flow needs of its proprietary activity.

D. Basis of Accounting

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

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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 School District, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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, 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 measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

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

The School District has a segregated bank account for monies held separate from the School District's central bank account. This account maintains voluntary payroll deductions associated with the School District's flexible spending program. This interest bearing depository account is presented on the balance sheet as "cash and cash equivalents in segregated accounts" since it is not required to be deposited into the School District treasury.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit which are reported at cost and STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Based upon board policy, the School District distributes interest to the General Fund, Self-Insurance Internal Service Fund, and the Private Purpose Trust Fund. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$46,816, which includes \$23,836 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories of governmental funds consist of expendable supplies held for consumption and donated and purchased food held for resale.

H. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. 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 fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. 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:

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-30 years
Buildings and Improvements	10-50 years
Furniture and Equipment	5-10 years
Vehicles	10 years

I. Interfund Balances

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

J. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization and a reserve for purchase of textbooks and instructional materials. See Note 19 for additional information regarding set asides.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave after seventeen years of current service for food service employees and nineteen years of current service for all other employees of the School District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the General Fund.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Interfund Transactions

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

N. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, budget stabilization, and textbooks and instructional materials.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for textbooks and instructional materials represents money required to be set-aside by statute for the purchase of textbooks and instructional materials.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service, music and athletic programs and for set-aside requirements, and federal and state grants restricted to expenditures for specified purposes.

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Q. 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.

R. Estimates

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

S. Budgetary Data

All funds, other than Agency Fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been authorized to allocate Board appropriations to the function and object level.

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

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

Note 3 - Change in Accounting Principle

For fiscal year 2004, the School District implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". This statement further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity". The implementation of the new statement had no effect on the School District's financial statements for fiscal year 2003.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 4 - Accountability and Compliance

A. Accountability

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

Special Revenue Funds:	
Food Service	\$34,569
Miscellaneous Local	\$53,201
District Managed Student Activities	\$4,597
Title I	\$69,448

The Miscellaneous Local, District Managed Student Activities and Title I Special Revenue Funds deficit balances resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The deficit in the Food Service Special Revenue Fund is due to accrued liabilities as well as a failure to adequately fund this program. The School District is planning in the future to increase lunch prices to address the deficit in the Food Service Special Revenue Fund.

B. Compliance

The following funds had final appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2004:

Special Revenue Fund:	
Miscellaneous Federal Grants	\$53,992
Capital Projects Fund:	
Stated Funded Capital Projects	\$3,600

The following funds had expenditures plus encumbrances in excess of appropriations contrary Section 5705.41, Ohio Revised Code:

General Fund	\$628,294
Special Revenue Funds:	
Food Service	\$15,903
Miscellaneous Local	\$68,573
District Managed Student Activities	\$27,171
Miscellaneous State Grants	\$33,361

The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 5 - Budgetary Basis of Accounting

While the School District is 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, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual 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 GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	(\$434,782)
Net Adjustment for Revenue Accruals	(60,860)
Net Adjustment for Expenditure Accruals	32,119
Beginning of Fiscal Year:	
Prepaid Items	159,661
End of Fiscal Year:	
Prepaid Items	(168,903)
Advances In	2,173
Advances Out	(95,395)
Adjustment for Encumbrances	(270,961)
Budget Basis	<u><u>(\$836,948)</u></u>

Note 6 - Deposits and Investments

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Rolling Hills Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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 or deposit accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$2,335,740 and the bank balance was \$2,551,301. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$2,351,301 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District invests in STAROhio which is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The carrying value and market value of the School District's STAROhio account at June 30, 2004 is \$166,800.

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

	Cash Equivalents	Investments
GASB Statement 9	\$2,495,407	\$7,133
Certificates of Deposit with a maturity of more than 90 days	7,133	(7,133)
STAROhio	(166,800)	166,800
GASB Statement 3	\$2,335,740	\$166,800

Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

Tangible personal property tax revenues received in calendar 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, 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-three percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 School District prior to June 30.

The School District receives property taxes from Guernsey, Muskingum and Noble Counties. The County Auditors periodically advance to the School 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 the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal 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 were levied to finance current fiscal year operations. The amount available as an advance at June 30, 2004, was \$1,360,007. \$1,235,870 was available to the General Fund, \$103,972 to the Debt Service Fund, and \$20,165 was available to the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2003 was \$1,293,128. \$1,144,843 was available to the General Fund, \$127,654 to the Debt Service Fund, and \$20,631 was available to the Classroom Facilities Special Revenue Fund. The receivable is offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

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

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

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$108,419,460	60.63%	\$112,490,800	61.41%
Public Utility Personal	9,971,090	5.58%	10,284,180	5.61%
Tangible Personal Property	60,431,430	33.79%	60,421,420	32.98%
Total	<u>\$178,821,980</u>	<u>100.00%</u>	<u>\$183,196,400</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.60		\$32.65	

Note 8 - Receivables

Receivables at June 30, 2004, consisted of property taxes, accounts (rent and student fees), intergovernmental grants, and interest. 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. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
CAFS Reimbursement	\$30,631
Federal Grants	240,018
School Lunch Reimbursement	37,910
Other	539
Total	<u>\$309,098</u>

Note 9 - Capital Assets

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

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Nondepreciable Capital Assets				
Land	\$218,502	\$0	\$0	\$218,502
Depreciable Capital Assets				
Land Improvements	292,335	6,250	0	298,585
Buildings and Improvements	17,218,235	503,425	0	17,721,660
Furniture and Equipment	1,514,969	50,576	(7,377)	1,558,168
Vehicles	1,578,339	110,694	(179,554)	1,509,479
Total at Historical Cost	<u>20,603,878</u>	<u>670,945</u>	<u>(186,931)</u>	<u>21,087,892</u>
Less Accumulated Depreciation				
Land Improvements	(97,165)	(13,178)	0	(110,343)
Buildings and Improvements	(4,998,513)	(545,369)	0	(5,543,882)
Furniture and Equipment	(1,148,134)	9,003	6,639	(1,132,492)
Vehicles	(719,655)	(125,575)	161,599	(683,631)
Total Accumulated Depreciation	<u>(6,963,467)</u>	<u>(675,119) *</u>	<u>168,238</u>	<u>(7,470,348)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>13,640,411</u>	<u>(4,174)</u>	<u>(18,693)</u>	<u>13,617,544</u>
Governmental Activities Capital Assets, Net	<u>\$13,858,913</u>	<u>(\$4,174)</u>	<u>(\$18,693)</u>	<u>\$13,836,046</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$296,027
Special	23,092
Vocational	6,979
Support Services:	
Pupils	35,229
Instructional Staff	33,600
Administration	29,340
Fiscal	6,979
Operation of Maintenance and Plant	34,112
Pupil Transportation	158,899
Central	3,490
Extracurricular	18,506
Operation of Non-Instructional Services:	
Food Service Operations	<u>28,866</u>
 Total Depreciation Expense	 <u><u>\$675,119</u></u>

The positive addition to accumulated depreciation for furniture and equipment is due to an insignificant change in the useful lives.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 10 - Interfund Transfers and Balances

Transfers made during fiscal year 2004 consist of the following transfers in and out:

	Transfers In	Transfers Out
General	\$0	\$219,632
Food Service	50,000	0
Title I	19,531	0
District Managed Student Activity	100,000	0
Bond Retirement	50,000	0
Local Capital Projects	101	0
Total	\$219,632	\$219,632

These transfers were made to help subsidize the operations of these activities. The transfer to the Bond Retirement Fund was made to cover a portion of the energy conservation notes payment.

Interfund balances at June 30, 2004, consist of the following individual fund receivables and payables:

	Receivable	Payable
General	\$0	\$95,395
Food Service	5,395	0
Miscellaneous Local	90,000	0
Total	\$95,395	\$95,395

The School District advanced \$5,395 from the General Fund to the Food Service Special Revenue Fund to eliminate a negative cash balance at June 30, 2004. The advance will be repaid in fiscal year 2005. The General Fund advanced \$90,000 to the Miscellaneous Local Special Revenue Fund to cover expenditures as needed during the fiscal year. The advance will be repaid in fiscal year 2005.

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Indiana Insurance, through Kennedy Insurance Agency, for property and fleet insurance. During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP. (See Note 17) Coverage provided is as follows:

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Indiana Insurance Company

Commercial Property Coverage Blanket	\$42,477,806
Equipment Breakdown Coverage	\$125,000
Commercial Crime Coverage	\$5,000
Commercial Inland Marine Coverage	\$380,000

Fleet Insurance:

Liability	\$2,000,000	any one accident
Auto Medical Payments	\$5,000	any one accident
Uninsured Motorists	\$1,000,000	any one accident
Comprehensive	\$100,000	any one accident
Collision	\$100,000	\$500 deductible

Ohio School Plan

General Liability:

Bodily Injury and Property Damage	\$1,000,000	each occurrence
Personal and Advertising Injury	\$1,000,000	each offense
Fire Damage	\$500,000	any one event
Medical Expense	\$10,000	each accident
General Aggregate	\$3,000,000	
Products Aggregate	\$1,000,000	
Employee Benefits Liability	\$1,000,000	
Aggregate	\$3,000,000	
Employers' Liability	\$1,000,000	
Errors and Omissions	\$1,000,000	
Aggregate	\$2,000,000	\$2,500 deductible
Employment Practices	\$1,000,000	
Aggregate	\$2,000,000	\$2,500 deductible
Excess Liability Coverage	\$2,000,000	

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2004.

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

C. Employee Medical Benefits

The School District has elected to provide employee medical/surgical, dental, and prescription drug benefits through a self-insured plan. Medical Benefits serves as claims servicer for this coverage. The claims liability of \$251,400 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 Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. An internal stop-loss coverage policy covers individual claims up to \$30,000. An external insurer is retained for individual stop-loss coverage in excess of \$30,000 to \$1,000,000 annually.

Changes in the fund's claims liability amount in fiscal years 2003 and 2004 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2003	\$185,400	\$2,208,135	\$2,160,035	\$233,500
2004	\$233,500	\$2,414,297	\$2,396,397	\$251,400

Note 12 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year earn five to twenty days of vacation per fiscal year, depending upon length of service. Vacation can be accumulated to one year's worth of accrual plus ten days. Accumulated, unused vacation time, is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for certified employees, 240 days for classified employees and 240 days for administrators. Upon retirement, certified employees receive payment for one-fourth of their total sick leave accumulation up to 60 days and classified employees receive payment for one-fourth of the total sick leave accumulation up to 60 days.

B. Insurance

The School District provides life insurance and accidental death and dismemberment insurance to all full-time employees through Union Central Insurance Company in the amount of \$50,000.

Rolling Hills Local School District, 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 School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling 614-222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$233,471, \$168,347, and \$300,273, respectively; 50 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$117,609, representing the unpaid contribution for fiscal year 2004, is recorded as a liability in the respective funds.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (614) 227-4090 or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$950,270, \$856,427, and \$909,528, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$3,058 made by the School District and \$5,858 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, one member of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS retirees who participated in the DB of Combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$73,132 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of the health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent of those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$160,760.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

Note 15 - Long Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

	Outstanding 6/30/2003	Additions	Reductions	Outstanding 6/30/2004	Amounts Due Within One Year
Governmental Activities					
1985 School Facilities Improvement - 9%					
General Obligation Bonds	\$1,950,000	\$0	\$325,000	\$1,625,000	\$325,000
1995 Energy Conservation Loan - 5.60%	200,000		100,000	100,000	100,000
Compensated Absences Payable	845,855	146,844	167,104	825,595	71,639
Total Governmental Activities					
Long-Term Liabilities	<u>\$2,995,855</u>	<u>\$146,844</u>	<u>\$592,104</u>	<u>\$2,550,595</u>	<u>\$496,639</u>

The 1985 School Facilities Improvement bonds were originally issued in the amount of \$7,435,000 for the purpose of constructing a high school, together with necessary parking, access roads and landscaping; acquiring and improving an existing school building; remodeling, improving and making additions to existing school buildings; and providing a sewage treatment plant, water service, furnishings and equipment for such school buildings. The bonds are being retired by the Debt Service Fund from the collection of property taxes.

The 1995 Energy Conservation Loan was originally issued in the amount of \$999,000 for the purpose of modifying and remodeling school buildings to reduce energy consumption. Property taxes are being utilized for the payment of this obligation from the Debt Service Fund.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Compensated absences will be paid from the fund in which the employees' salaries are paid. These funds include the General Fund and the Food Service, Miscellaneous Local, Miscellaneous State Grants, Title I and Miscellaneous Federal Grants Special Revenue Funds.

Principal and interest requirements to retire the long-term general obligation bonds outstanding at June 30, 2004, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$325,000	\$131,625	\$456,625
2006	325,000	102,375	427,375
2007	325,000	73,125	398,125
2008	325,000	43,875	368,875
2009	325,000	14,625	339,625
Totals	<u>\$1,625,000</u>	<u>\$365,625</u>	<u>\$1,990,625</u>

Principal and interest requirements to retire the Energy Conservation Notes Outstanding at June 30, 2004, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$100,000	\$2,800	\$102,800

The overall debt margin of the School District as of June 30, 2004, was \$15,608,056, with an unvoted debt margin of \$183,196.

Note 16 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. OME-RESA is governed by a governing board which is selected by the member districts. OME-RESA possesses its own budgeting authority. The School District's payment for computer services to OME-RESA in fiscal year 2004 was \$74,803. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

B. Mid-East Career and Technology Centers

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational services to its thirteen member school districts. The Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The Board possesses its own budgeting and taxing authority. The continued existence of the vocational school is not dependent on the School District's continued participation and no equity interest exists. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

C. Metropolitan Educational Council

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 100 members which includes school district, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the cost of administering the program. The School District's membership payment to MEC for fiscal year 2004 was \$848. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd, Suite 604, Columbus, Ohio 43232.

D. East Central Ohio Special Education Regional Resource Center (ECO SERRC)

The School District participates in East Central Ohio Special Education Regional Resource Center (ECO SERRC), which is a special education regional resource center that selects its own board, adopts its own budget, and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO SERRC is governed by a board composed of superintendents of member school districts in east central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO SERRC. ECO SERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for ECO SERRC. Financial information can be obtained by contacting Julie A Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Education Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

E. Coalition of Rural and Appalachian Schools

The School District participates in the Coalition of Rural and Appalachian Schools, a jointly governed organization including 134 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a board which is composed of seventeen members. The board members consist of one member elected and one member appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from the Ohio University College of Education. The Coalition provides various in-service functions for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 17 - Insurance Purchasing Pools

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

B. Ohio School Plan

The School District belongs to the Ohio School Plan (the Plan), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools (Members).

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator's legal liability, automobile and violence coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan's paid liability loss ratio exceeds 65% and is less than 80% does the Plan contribute to paid claims. (See the Plan's audited financial statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004 and 2003 (the latest information available):

	2004	2003
Assets	\$850,065	\$260,932
Liabilities	\$509,558	\$172,784
Members' Equity	\$340,507	\$88,148

You can read the complete audited financial statements for the Ohio School Plan at the Plan's website, www.ohioschoolplan.org.

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

B. Litigation

The School District is currently not a party to any legal proceedings.

Note 19 - Set Asides

The School District is required by State statute to annually set-aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

Senate Bill 345, effective April 10, 2001, eliminated future set-aside requirements for budget stabilization, reduced requirements related to the current set-aside, and placed restrictions on current budget stabilization money relating to workers' compensation refunds.

The following cash basis information describes the change in the fiscal year end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

The following cash basis information describes the change in the year end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$94,144	\$0	\$67,981
Current Year Set-aside Requirement	292,352	292,352	0
Current Year Offsets	0	(58,144)	0
Qualifying Disbursements	(195,221)	(265,270)	0
Total	<u>\$191,275</u>	<u>(\$31,062)</u>	<u>\$67,981</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$191,275</u>	<u>\$0</u>	<u>\$67,981</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amount to below zero. The total reserve balance for the three set-asides as the end of the fiscal year was \$259,256.

Note 20 - 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 decision 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 School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

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**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$90,396	\$0	\$90,396
School Breakfast Program	047308-05PU-2003	10.553	18,010		18,010	
	047308-05PU-2004	10.553	48,559		48,559	
Total School Breakfast Program			<u>66,569</u>	<u>0</u>	<u>66,569</u>	<u>0</u>
National School Lunch Program	047308-LLP1-2004	10.555	614		614	
	047308-LLP4-2003	10.555	71,347		71,347	
	047308-LLP4-2004	10.555	206,373		206,373	
Total National School Lunch Program			<u>278,334</u>	<u>0</u>	<u>278,334</u>	<u>0</u>
Total Nutrition Cluster			344,903	90,396	344,903	90,396
Team Nutrition Grants	07308-TWSU-2004	10.574	2,000			
Total United States Department of Agriculture			346,903	90,396	344,903	90,396
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	047308-C1S1-2002	84.010	(17,403)			
	047308-C1S1-2003	84.010	80,948		80,892	
	047308-C1S1-2004	84.010	508,134		470,850	
Total Title I Grants to Local Educational Agencies			<u>571,679</u>	<u>0</u>	<u>551,742</u>	<u>0</u>
Special Education Grants to States	047308-6BSF-2002	84.027	58,256		50,693	
	047308-6BSF-2004	84.027	202,915		195,261	
Total Special Education Grants to States			<u>261,171</u>	<u>0</u>	<u>245,954</u>	<u>0</u>
Safe and Drug-Free Schools and Communities State Grant	047308-DRS1-2002	84.186	(3,735)			
	047308-DRS1-2003	84.186	(1,941)		280	
	069682-DRS1-2004	84.186	16,539		8,978	
Total Safe and Drug-Free Schools and Communities State Grant			<u>10,863</u>	<u>0</u>	<u>9,258</u>	<u>0</u>
Goals 2000 - State and Local Education Systemic Improvement Grants	047308-G2S2-2001	84.276	(3,432)			
Eisenhower Professional Development State Grants	047308-G2S2-2001	84.281	(1,338)		102	
	047308-G2S2-2002	84.281	(14,071)			
Total Eisenhower Professional Development			<u>(15,409)</u>	<u>0</u>	<u>102</u>	<u>0</u>
State Grants for Innovative Programs	047308-C2S1-2002	84.298	(7,233)			
	047308-C2S1-2003	84.298	(1,015)			
	047308-C2S1-2004	84.298	11,814		2,695	
Total State Grants for Innovative Programs			<u>3,566</u>	<u>0</u>	<u>2,695</u>	<u>0</u>
Education Technology State Grants	047308-TJS1-2003	84.318	3,355		749	
	047308-TJS1-2004	84.318	15,303		11,593	
Total Education Technology State Grants			<u>18,658</u>	<u>0</u>	<u>12,342</u>	<u>0</u>
Class Size Reduction (Title VI-R)	047308-CRS1-2002	84.340	(8,026)			
Rural Education	047308-RUS1-2004	84.358	9,047			
Improving Teacher Quality State Grants	047308-TRS1-2003	84.367	31,413		16,339	
	047308-TRS1-2004	84.367	109,579		131,239	
Total Improving Teacher Quality			<u>140,992</u>	<u>0</u>	<u>147,578</u>	<u>0</u>
Total United States Department of Education			989,109	0	969,671	0

ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)

FEDERAL GRANTOR/ <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program (Medicaid, Title XIX)	N/A	93.778	57,933		57,933	
Total United States Department of Health and Human Services			57,933	0	57,933	0
Total Schedule of Federal Awards Receipts and Expenditures			<u>57,933</u>	<u>0</u>	<u>57,933</u>	<u>0</u>

The accompanying Notes to this Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the School 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.

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

NOTE C – ELIMINATION OF CFDA NOS. 84.281 and 84.340

During fiscal year 2003, the U.S. Department of Education discontinued the Eisenhower Program (CFDA No. 84.281) and the Class Size Reduction Program (CFDA No. 84.340) with the program purposes continued under a new federal program, Improving Teacher Quality (CFDA No. 84.367). The Schedule reflects the following transfer due to the elimination of CFDA Nos. 84.281 and 84.340:

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
84.281	07308-MSS1-2002		\$14,071
84.340	047308-CRS1-2002		<u>8,026</u>
84.367	047308-TRS1-2003	<u>\$22,097</u>	
Total		<u>\$22,097</u>	<u>\$22,097</u>

NOTE D – REFUNDS

When unobligated funds remain after the expiration of the period of availability, the Ohio Department of Education requires a refund of money be made by the School District. During fiscal year 2004, a refund of \$3,432 from the Goals 2000 State and Local Systemic Improvement Grant (CFDA No. 84.276) and \$1,338 from the Eisenhower Program (CFDA No. 84.281) was made in response to the expiration of the period of availability of grant year 2001. The Schedule reflects these transactions as negative receipts within the respective CFDA numbers.

NOTE E - TRANSFERS

The Ohio Department of Education (ODE) requires School Districts to record grant funds carried over from one grant period to another grant period as a negative receipt in the original grant fund project-by-year line and as a positive receipt in the subsequent year project line. The Schedule reflects the following transfers due to ODE administrative action:

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE E – TRANSFERS (Continued)

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
84.010	047308-C1S1-2002		\$17,403
84.010	047308-C1S1-2003	\$17,403	
84.186	047308-DRS1-2002		3,735
84.186	047308-DRS1-2003	3,735	
84.186	047308-DRS1-2003		7,119
84.186	047308-DRS1-2004	7,119	
84.298	047308-C2S1-2002		7,233
84.298	047308-C2S1-2003	7,233	
84.298	047308-C2S1-2003		9,488
84.298	047308-C2S1-2004	9,488	
84.318	047308-TJS1-2003		2,645
84.318	047308-TJS1-2004	2,645	
84.367	047308-TRS1-2003		<u>4,969</u>
84.367	047308-TRS1-2004	<u>4,969</u>	
Total		<u>\$52,592</u>	<u>\$52,592</u>



**Auditor of State
Betty Montgomery**

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

Rolling Hills Local School District
Guernsey County
P.O. Box 38
Byesville, Ohio 43723

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 Rolling Hills Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 2, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated June 2, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-001 and 2004-002. In a separate letter to the School District's management dated June 2, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Rolling Hills Local School District
Guernsey County
Independent Accountants' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

June 2, 2005



Auditor of State Betty Montgomery

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

Rolling Hills Local School District
Guernsey County
P.O. Box 38
Byesville, Ohio 43723

To the Board of Education:

Compliance

We have audited the compliance of the Rolling Hills Local School District, Guernsey County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2004. The Summary of Auditor's Results Section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2004. In a separate letter to the School District's management dated June 2, 2005, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control over Compliance

The School District's management 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

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www.auditor.state.oh.us

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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated June 2, 2005.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

June 2, 2005

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS
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(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)?	Yes
(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 Section .510?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster – C.F.D.A. #10.550, #10.553 & #10.555 Title I, Grants to Local Educational Agencies – C.F.D.A. 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?	No

ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2004
(Continued)

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

FINDING NUMBER 2004-001

Finding for Recovery

According to the Agreement between the Rolling Hills Local Board of Education and the Rolling Hills Education Association effective July 1, 2003 through June 30, 2004, the salary for a teacher on step 20 with a master's degree amounted to \$50,125. Christine A. Zerger, teacher for the Rolling Hills Local School District, held a master's degree with 14 additional semester hours. However, in fiscal year 2004, she was paid according to the Agreement on step 20, masters plus 15 semester hours, which amounted to \$52,647. This is due to the fact that the teacher was erroneously given credit for one college class twice. Although Christine A. Zerger was given the opportunity to provide proof that she had the proper number of semester hours during the audit period, as of the date of this report, she has not provided such proof. Since the Rolling Hills Local School District begins the pay under a new contract on the first pay of September, payment under the contract year is different than the fiscal year. The following table represents the overpayment by fiscal year to Christine Zerger from the year that she began being paid on step 20, masters plus 15 semester hours:

<u>Fiscal Year</u>	<u>Salary per Agreement</u>	<u>Amount Paid</u>	<u>Overpayment</u>
2001	\$44,837	\$46,672	(\$1,835)
2002	46,810	49,165	(2,355)
2003	48,344	50,776	(2,432)
2004	49,835	52,341	(2,506)
Totals	<u>\$189,826</u>	<u>\$198,954</u>	<u>(\$9,128)</u>

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued for public monies illegally expended against Christine A. Zerger, Teacher, Jeffrey A. Walters, Treasurer, and The Ohio Casualty Insurance Company, his bonding company, jointly and severally, in the amount of \$9,128, in favor of the Rolling Hills Local School District's General Fund.

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states, in part, money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At June 30, 2004, the following funds had negative fund balances in the following amounts:

Fund	Negative Balance
006 - Food Service	(\$14,748)
019 - Rotary	(\$6,564)
300 - Student Activities	(\$18,430)
459 - Ohio Reads	(\$8,545)
460 - Student Intervention	(\$20,364)
584 - Drug Free Schools	(\$442)
590 - Class Size Reduction	(\$1,205)

In addition, we noted instances throughout the year in which negative fund balances existed, as follows:

At December 31, 2003:

Fund	Negative Balance
003 - Permanent Improvement	(\$24,954)
006 - Food Service	(\$370,535)
019 - Rotary	(\$54,796)
070 - MHS Greenhouse Project	(\$101)
572 - Title I	(\$35,251)

At March 31, 2004:

Fund	Negative Balance
006 - Food Service	(\$282,412)
019 - Rotary	(\$89,011)
447 - DPIA	(\$10,904)
460 - Student Intervention	(\$10,076)

We recommend the Treasurer closely monitor fund balances to ensure they are positive. We additionally recommend the Treasurer use transfers or advances to solve short-term cash flow issues rather than allowing fund balances to be negative.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards that were required to be reported herein.

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-001	The Treasurer and Assistant Treasurer plan to review all degrees and credit hours to ensure teachers are being placed on the correct column of the salary schedule.	Ongoing	Jeff Walters, Treasurer
2004-002	The Treasurer plans to more closely monitor negative cash fund balances.	Ongoing	Jeff Walters, Treasurer



**Auditor of State
Betty Montgomery**

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**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY 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
JULY 7, 2005**