



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Hillsboro City School District, Highland County, Ohio, (the District) as of and for the fiscal year ended June 30, 1999 as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Hillsboro City School District, Highland County, Ohio, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2000 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

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Jim Petro
Auditor of State

March 22, 2000

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Hillsboro City School District
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 1999

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
Assets and Other Debits:					
Equity in Pooled Cash and Cash Equivalents	\$252,340	\$473,352	\$323,523	\$49,037	\$183,730
Restricted Pooled Cash and Cash Equivalents	182,549	0	0	0	0
Receivables:					
Taxes	5,875,963	0	0	0	0
Accounts	196,131	0	0	0	0
Accrued Interest	2,877	0	0	0	0
Interfund Receivable	141,000	0	5,000	0	0
Inventory	0	0	0	7,405	0
Fixed Assets (Net, where applicable, of					
Accumulated Depreciation)	0	0	0	88,415	0
Other Debits:					
Amount to be Provided for Retirement of General					
Long-Term Obligations	0	0	0	0	0
Total Assets & Other Debits	<u>\$6,650,860</u>	<u>\$473,352</u>	<u>\$328,523</u>	<u>\$144,857</u>	<u>\$183,730</u>
Liabilities, Fund Equity & Other Credits:					
Liabilities:					
Accounts Payable	\$68,684	\$38,764	\$60,129	\$59,745	\$0
Claims Payable	0	0	0	0	63,425
Accrued Wages & Benefits	1,492,222	91,415	0	57,809	0
Compensated Absences Payable	120,209	3,676	0	13,201	0
Interfund Payable	0	3,000	0	143,000	0
Deferred Revenue	5,727,802	0	0	3,395	0
Due to Students	0	0	0	0	0
Capital Lease Obligations	0	0	0	0	0
Total Liabilities	<u>7,408,917</u>	<u>136,855</u>	<u>60,129</u>	<u>277,150</u>	<u>63,425</u>
Fund Equity & Other Credits:					
Investment in General Fixed Assets	0	0	0	0	0
Retained Earnings:					
Unreserved	0	0	0	(132,293)	120,305
Fund Balance:					
Reserved for Encumbrances	204,236	239,608	126,286	0	0
Reserved for Property Tax Advances	148,161	0	0	0	0
Reserved For Set-Asides	182,549	0	0	0	0
Unreserved & Undesignated	(1,293,003)	96,889	142,108	0	0
Total Fund Equity (Deficit) & Other Credits	<u>(758,057)</u>	<u>336,497</u>	<u>268,394</u>	<u>(132,293)</u>	<u>120,305</u>
Total Liabilities, Fund Equity & Other Credits	<u>\$6,650,860</u>	<u>\$473,352</u>	<u>\$328,523</u>	<u>\$144,857</u>	<u>\$183,730</u>

See accompanying notes.

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	Trust and Agency	General Fixed Assets	
\$78,495	\$0	\$0	\$1,360,477
0	0	0	182,549
0	0	0	5,875,963
0	0	0	196,131
0	0	0	2,877
0	0	0	146,000
0	0	0	7,405
0	11,781,329	0	11,869,744
0	0	822,746	822,746
<u>\$78,495</u>	<u>\$11,781,329</u>	<u>\$822,746</u>	<u>\$20,463,892</u>
\$994	\$0	\$0	\$228,316
0	0	0	63,425
0	0	96,963	1,738,409
0	0	565,783	702,869
0	0	0	146,000
0	0	0	5,731,197
45,116	0	0	45,116
0	0	160,000	160,000
<u>46,110</u>	<u>0</u>	<u>822,746</u>	<u>8,815,332</u>
0	11,781,329	0	11,781,329
0	0	0	(11,988)
0	0	0	570,130
0	0	0	148,161
0	0	0	182,549
<u>32,385</u>	<u>0</u>	<u>0</u>	<u>(1,021,621)</u>
<u>32,385</u>	<u>11,781,329</u>	<u>0</u>	<u>11,648,560</u>
<u>\$78,495</u>	<u>\$11,781,329</u>	<u>\$822,746</u>	<u>\$20,463,892</u>

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Hillsboro City School District
 Combined Statement of Revenues, Expenditures
 And Changes in Fund Balance
 All Governmental Fund Types and Expendable Trust Funds
 For the Year Ended June 30, 1999

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Revenues:					
Taxes	\$5,651,407	\$0	\$0	\$0	\$5,651,407
Intergovernmental	8,312,380	1,006,441	423,356	0	9,742,177
Investment	67,754	0	0	1,234	68,988
Tuition & Fees	91,485	0	0	0	91,485
Extracurricular Activities	0	239,326	0	0	239,326
Miscellaneous	251,349	95,771	0	4,873	351,993
Total Revenues	<u>14,374,375</u>	<u>1,341,538</u>	<u>423,356</u>	<u>6,107</u>	<u>16,145,376</u>
Expenditures:					
Current:					
Instruction:					
Regular	6,286,348	178,482	0	0	6,464,830
Special	809,956	474,485	0	0	1,284,441
Vocational	420,150	0	0	0	420,150
Other	44,157	0	0	0	44,157
Support Services:					
Pupils	604,877	107,696	0	0	712,573
Instructional Staff	825,631	209,713	6,103	0	1,041,447
Board of Education	18,950	0	0	0	18,950
Administration	1,584,628	14,847	184	0	1,599,659
Fiscal	311,646	0	0	0	311,646
Business	0	0	0	2,289	2,289
Operation & Maintenance of Plant	1,140,168	4,724	391,956	0	1,536,848
Pupil Transportation	941,372	577	0	0	941,949
Central	229	5,130	253,777	0	259,136
Operation of Non-Instructional Services	109,913	19,467	0	6,000	135,380
Extracurricular Activities	173,246	161,393	0	0	334,639
Capital Outlay	86,202	5,740	0	0	91,942
Debt Service:					
Principal Retirement	120,000	0	120,000	0	240,000
Interest & Fiscal Charges	9,425	0	13,957	0	23,382
Total Expenditures	<u>13,486,898</u>	<u>1,182,254</u>	<u>785,977</u>	<u>8,289</u>	<u>15,463,418</u>
Excess of Revenues Over (Under) Expenditures	<u>887,477</u>	<u>159,284</u>	<u>(362,621)</u>	<u>(2,182)</u>	<u>681,958</u>
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	6,604	0	0	0	6,604
Operating Transfers In	0	0	332,723	0	332,723
Operating Transfers Out	(332,723)	0	0	0	(332,723)
Total Other Financing Sources (Uses)	<u>(326,119)</u>	<u>0</u>	<u>332,723</u>	<u>0</u>	<u>6,604</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	<u>561,358</u>	<u>159,284</u>	<u>(29,898)</u>	<u>(2,182)</u>	<u>688,562</u>
Fund Balance, Beginning of Year	(1,319,415)	177,213	298,292	34,567	(809,343)
Fund Balance, End of Year	<u>(\$758,057)</u>	<u>\$336,497</u>	<u>\$268,394</u>	<u>\$32,385</u>	<u>(\$120,781)</u>

See accompanying notes.

Hillsboro City School District
 Combined Statement of Revenues, Expenditures
 And Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 All Governmental Fund Types
 For the Year Ended June 30, 1999

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$5,583,995	\$5,583,995	\$0	\$0	\$0	\$0
Intergovernmental	8,257,012	8,321,232	64,220	1,099,532	1,006,441	(93,091)
Investment	67,892	67,892	0	0	0	0
Tuition & Fees	79,327	79,327	0	0	0	0
Extracurricular Activities	0	0	0	237,525	239,326	1,801
Miscellaneous	72,355	72,355	0	95,771	95,771	0
Total Revenues	14,060,581	14,124,801	64,220	1,432,828	1,341,538	(91,290)
Expenditures:						
Current:						
Instruction:						
Regular	6,403,227	6,324,434	78,793	390,405	374,589	15,816
Special	806,331	802,858	3,473	591,724	465,304	126,420
Vocational	438,254	423,681	14,573	0	0	0
Other	46,707	44,157	2,550	0	0	0
Support Services:						
Pupils	634,046	630,051	3,995	128,989	115,528	13,461
Instructional Staff	867,482	834,913	32,569	318,324	230,869	87,455
Board of Education	19,500	19,249	251	0	0	0
Administration	1,629,562	1,625,834	3,728	41,572	22,361	19,211
Fiscal	324,276	322,108	2,168	0	0	0
Operation & Maintenance of Plant	1,446,234	1,324,268	121,966	6,653	4,871	1,782
Pupil Transportation	989,096	978,065	11,031	2,306	1,106	1,200
Central	500	229	271	16,729	6,499	10,230
Operation of Non-Instructional Services	111,154	108,714	2,440	20,946	20,052	894
Extracurricular Activities	174,202	173,246	956	181,545	178,319	3,226
Capital Outlay	88,618	88,618	0	7,425	7,150	275
Debt Service:						
Principal Retirement	120,000	120,000	0	0	0	0
Interest & Fiscal Charges	12,000	9,425	2,575	0	0	0
Total Expenditures	14,111,189	13,829,850	281,339	1,706,618	1,426,648	279,970
Excess (Deficiency) of Revenues Over Under Expenditures	(50,608)	294,951	345,559	(273,790)	(85,110)	188,680
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	6,604	6,604	0	0	0	0
Operating Transfers In	0	0	0	77,693	77,693	0
Operating Transfers Out	(334,523)	(334,523)	0	(77,693)	(77,693)	0
Advances In	5,000	5,000	0	5,000	5,000	0
Advances Out	(80,000)	(80,000)	0	(5,000)	(5,000)	0
Total Other Financing Sources (Uses)	(402,919)	(402,919)	0	0	0	0
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(453,527)	(107,968)	345,559	(273,790)	(85,110)	188,680
Fund Balance, Beginning of Year (Includes Prior Year Encumbrances Appropriated)	269,931	269,931	0	280,097	280,097	0
Fund Balance, End of Year	(\$183,596)	\$161,963	\$345,559	\$6,307	\$194,987	\$188,680

See accompanying notes.

Capital Projects			Totals (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$5,583,995	\$5,583,995	\$0
598,352	423,356	(174,996)	9,954,896	9,751,029	(203,867)
0	0	0	67,892	67,892	0
0	0	0	79,327	79,327	0
0	0	0	237,525	239,326	1,801
0	0	0	168,126	168,126	0
598,352	423,356	(174,996)	16,091,761	15,889,695	(202,066)
0	0	0	6,793,632	6,699,023	94,609
0	0	0	1,398,055	1,268,162	129,893
0	0	0	438,254	423,681	14,573
0	0	0	46,707	44,157	2,550
0	0	0	763,035	745,579	17,456
35,476	7,735	27,741	1,221,282	1,073,517	147,765
0	0	0	19,500	19,249	251
4,684	184	4,500	1,675,818	1,648,379	27,439
0	0	0	324,276	322,108	2,168
510,335	496,673	13,662	1,963,222	1,825,812	137,410
0	0	0	991,402	979,171	12,231
285,136	273,784	11,352	302,365	280,512	21,853
0	0	0	132,100	128,766	3,334
0	0	0	355,747	351,565	4,182
0	0	0	96,043	95,768	275
120,000	120,000	0	240,000	240,000	0
13,957	13,957	0	25,957	23,382	2,575
969,588	912,333	57,255	16,787,395	16,168,831	618,564
(371,236)	(488,977)	(117,741)	(695,634)	(279,136)	416,498
0	0	0	6,604	6,604	0
332,723	332,723	0	410,416	410,416	0
0	0	0	(412,216)	(412,216)	0
0	0	0	10,000	10,000	0
0	0	0	(85,000)	(85,000)	0
332,723	332,723	0	(70,196)	(70,196)	0
(38,513)	(156,254)	(117,741)	(765,830)	(349,332)	416,498
293,360	293,360	0	843,388	843,388	0
\$254,847	\$137,106	(\$117,741)	\$77,558	\$494,056	\$416,498

Hillsboro City School District
 Combined Statement of Revenues, Expenses
 And Changes in Retained Earnings
 All Proprietary Fund Types
 For the Year Ended June 30, 1999

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
Operating Revenues:			
Charges for Services	\$486,230	\$168,329	\$654,559
Tuition & Fees	<u>9,291</u>	<u>0</u>	<u>9,291</u>
Total Operating Revenues	<u>495,521</u>	<u>168,329</u>	<u>663,850</u>
Operating Expenses:			
Salaries	290,439	0	290,439
Fringe Benefits	126,001	0	126,001
Purchased Services	30,948	0	30,948
Materials & Supplies	376,593	0	376,593
Depreciation	3,359	0	3,359
Claims	<u>0</u>	<u>218,702</u>	<u>218,702</u>
Total Operating Expenses	<u>827,340</u>	<u>218,702</u>	<u>1,046,042</u>
Operating Income (Loss)	<u>(331,819)</u>	<u>(50,373)</u>	<u>(382,192)</u>
Non-Operating Revenues (Expenses):			
Donated Commodities	42,228	0	42,228
Operating Grants - State & Local	14,984	0	14,984
Operating Grants - Federal	<u>217,921</u>	<u>0</u>	<u>217,921</u>
Total Non-Operating Revenues	<u>275,133</u>	<u>0</u>	<u>275,133</u>
Net Income	(56,686)	(50,373)	(107,059)
Retained Earnings, Beginning of Year (Restated - Note 18)	<u>(75,607)</u>	<u>170,678</u>	<u>95,071</u>
Retained Earnings, End of Year	<u><u>(\$132,293)</u></u>	<u><u>\$120,305</u></u>	<u><u>(\$11,988)</u></u>

See accompanying notes.

Hillsboro City School District
 Combined Statement of Cash Flows
 All Proprietary Fund Types
 For the Year Ended June 30, 1999

	Proprietary Fund Types		Totals (Memorandum only)
	Enterprise	Internal Service	
Cash Flows from Operating Activities:			
Cash Received from Tuition & Fees	\$9,291	\$0	\$9,291
Cash Received from Charges for Services	486,230	168,329	654,559
Cash Payments for Personal Services	(411,889)	0	(411,889)
Cash Payments for Contract Services	(49,460)	0	(49,460)
Cash Payments for Supplies & Materials	(307,828)	0	(307,828)
Cash Payments for Other Expenses	0	(213,825)	(213,825)
Net Cash Provided (Used) by Operating Activities	<u>(273,656)</u>	<u>(45,496)</u>	<u>(319,152)</u>
Cash Flows from Non-Capital Financing Activities:			
Cash Received from Other Funds	75,000	0	75,000
Cash Received from Operating Grants	232,905	0	232,905
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>307,905</u>	<u>0</u>	<u>307,905</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	<u>(599)</u>	<u>0</u>	<u>(599)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(599)</u>	<u>0</u>	<u>(599)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	33,650	(45,496)	(11,846)
Cash and Cash Equivalents at Beginning of Year	<u>15,387</u>	<u>229,226</u>	<u>244,613</u>
Cash and Cash Equivalents at End of Year	<u>\$49,037</u>	<u>\$183,730</u>	<u>\$232,767</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	(\$331,819)	(\$50,373)	(\$382,192)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	3,359	0	3,359
Donated Commodities Used	42,228	0	42,228
Changes in Assets and Liabilities:			
(Increase) Decrease in Materials & Supplies Inventory	3,972	0	3,972
Increase (Decrease) in Accounts Payable	25,823	0	25,823
Increase (Decrease) in Loan Payable	(18,512)	0	(18,512)
Increase (Decrease) in Claims Payable	0	4,877	4,877
Increase (Decrease) in Accrued Wages & Benefits	3,749	0	3,749
Increase (Decrease) in Compensated Absences Payable	802	0	802
Increase (Decrease) in Deferred Revenue	<u>(3,258)</u>	<u>0</u>	<u>(3,258)</u>
Net Cash Provided (Used) by Operating Activities	<u>(\$273,656)</u>	<u>(\$45,496)</u>	<u>(\$319,152)</u>

See accompanying notes.

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 - DESCRIPTION OF THE DISTRICT

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

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 109 non-certificated personnel and 186 certificated teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the District's ADM is 2,823. It currently operates four elementary buildings housing grades K-6, and one Middle School/Senior High building housing grades 7-12. The Administrative Office is located at 338 West Main Street, Hillsboro, Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

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

1. The District appointed a voting majority of the organization's governing body **AND** (a) was able to impose its will on that organization **OR** (b) there was a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the District.

OR 2. The organization was fiscally dependent upon the District.

OR 3. The nature of the relationship between the District and the organization was such that exclusion from the financial reporting entity would render the financial statements misleading.

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting

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

Governmental Funds

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

General Fund

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

Special Revenue Fund

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

Capital Projects Fund

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

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

Enterprise Funds

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Service Fund

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

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

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

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group

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

C. Measurement Focus/Basis of Accounting

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

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

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

D. Budgetary Data

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

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

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

1. Prior to January 15 of the preceding fiscal year, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers comments. The expressed purpose of this budget document is to reflect the need for existing or increased tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Highland County Budget Commission for tax rate determination.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Prior to March 15, the Board of Education accepts by formal resolution, the tax rates as determined by the Highland County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for appropriation measure. On or about July 1, the Certificate is amended to include any encumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State Statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the Highland County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board.
8. Unencumbered appropriations lapse at the year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

E. Encumbrances

Encumbrance accounting is utilized by District funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a liability. For Governmental Fund Types encumbrances outstanding at fiscal year end appear as a reserve of the fund balance on a GAAP Basis and for all funds as the equivalent of expenditures/expenses on a non-GAAP budgetary basis in order to demonstrate legal compliance.

F. Cash and Cash Equivalents

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

For purposes of the Statement of Cash Flows (GASB Statement No. 9) all highly liquid investments with a maturity of three months or less when acquired are considered to be cash equivalents and are included under the heading "Equity in pooled cash and cash equivalents." During the current fiscal year, the District had no investments.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. A fund balance reserve has also been established as required by Ohio law.

H. Inventory (Materials and Supplies)

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

I. Fixed Assets and Depreciation

General Fixed Assets Account Group

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

Proprietary Funds

Property, plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

Building Improvements	20-40 years
Equipment	3-15 years

J. Intergovernmental Revenues

In Governmental Funds, non-reimbursable grants are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants for Proprietary Fund operations are recognized as revenue when measurable and earned.

K. Compensated Absences

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

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

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

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<u>Certificated</u>	<u>Administrators</u>	<u>Non-Certificated</u>
<u>Sick Leave:</u>			
Maximum Accumulation	245	245	245
Vested	As earned	As earned	As earned
Termination Entitlement	Per Contract	Per Board Policy	Per Board Policy

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

L. Interfund Transactions

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

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

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

M. Long-Term Obligations

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. 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.

Fund Equity

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

P. Memorandum Only - Total Columns

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

Q. Proprietary Fund Accounting

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

NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (continued)

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

State legislation now permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the united States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (continued)

District deposits at fiscal year end consisted of certificates of deposit, and checking accounts. At year-end the carrying amount of the District's deposits was \$1,543,026. The bank balance of deposits was \$1,830,056. Of that balance, \$267,298 was covered by federal depository insurance. The remaining bank balance was covered by collateral held by third-party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions. The remaining bank balance is defined by GASB statement No. 3 as uncollateralized because the collateral held by the trustees is not in the District's name.

As of the fiscal year end, the District held no investments.

NOTE 4 - PROPERTY TAXES

Property taxes include amounts levied against real, public utility and tangible personal (business) property. The assessed value, by property classification, upon which taxes collected in 1999 were based are as follows:

Real Property - Commercial/Industrial	\$ 31,841,250
Real Property - Residential/Agricultural	122,945,500
Real Property - Public Utilities	18,590
Personal Property - General	26,655,010
Personal Property - Public Utilities	<u>13,195,620</u>
Total	<u>\$194,655,970</u>

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

Real property taxes are payable annually or semi-annually. If paid annually, payment was due by March 11. If paid semi-annually, the first payment (at least ½ of amount billed) was due March 11 with the remainder due on August 12.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 4 - PROPERTY TAXES (continued)

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

NOTE 5 - FIXED ASSETS

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

	<u>Balance Beginning of Year Restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Land & Land Improvements	\$ 266,290	\$ 929,995	\$ 0	\$ 1,196,285
Building and Building Improvements	4,582,722	240,000	0	4,822,722
Equipment	5,293,618	558,622	89,918	5,762,322
Construction in Progress	<u>761,963</u>	<u>168,032</u>	<u>929,995</u>	<u>0</u>
Total	<u>\$10,904,593</u>	<u>\$1,896,649</u>	<u>\$1,019,913</u>	<u>\$11,781,329</u>

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

Equipment	\$246,017
Less Accumulated Depreciation	<u>(157,602)</u>
Net Fixed Assets	<u>\$ 88,415</u>

NOTE 6 - CHANGES IN THE GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 6 - CHANGES IN THE GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP (continued)

	<u>Balance Beginning of Year Restated</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance End of Year</u>
Accrued Wages & Benefits	\$ 103,376	\$ 0	(\$6,413)	\$ 96,963
Compensated Absences	510,212	55,571	0	565,783
Capital Lease Payable	<u>400,000</u>	<u>0</u>	<u>(240,000)</u>	<u>160,000</u>
Totals	<u>\$1,013,588</u>	<u>\$55,571</u>	<u>(\$246,413)</u>	<u>\$822,746</u>

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

NOTE 7 – LOAN PAYABLE

During the current fiscal year, the following changes occurred in liabilities reported in the Enterprise Fund:

	<u>Balance Beginning of Year</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance End of Year</u>
Loan Payable	\$18,512	\$ 0	(\$18,512)	\$ 0

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 1998, the District entered into a capitalized lease for the acquisition of a Vocational Agriculture building. The lease meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

General fixed assets consisting of the building have been capitalized in the general fixed assets account group in the amount of \$440,000. This amount represents the total principal payments made on the lease, through June 30, 1999. A liability of \$600,000 was recorded in the general long-term obligations account group in fiscal year 1998, for the total principal amount payable on the lease. Total principal payments in fiscal year 1999 were \$240,000.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 1999:

Fiscal Year Ending June 30,	GLTOAG
2000	\$164,950
Total	164,950
Less: Amount Representing Interest	(4,950)
Present Value of Net Minimum Lease Payments	\$160,000

NOTE 9 - SEGMENT INFORMATION

Enterprise Funds

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

	<u>Food Services</u>	<u>Uniform School Supply</u>	<u>Total</u>
Operating Revenues	\$ 486,230	\$ 9,291	\$ 495,521
Operating Expenses Before Depreciation	813,322	10,659	823,981
Depreciation	3,359	0	3,359
Operating Income (Loss)	(330,451)	(1,368)	(331,819)
Operating Grants	232,905	0	232,905
Donated Commodities	42,228	0	42,228
Net Income (Loss)	(55,318)	(1,368)	(56,686)
Net Working Capital	(208,325)	818	(207,507)
Total Assets	144,039	818	144,857
Total Liabilities	277,150	0	277,150
Total Equity	(133,111)	818	(132,293)

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 10 - RISK MANAGEMENT

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

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

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$22,101,613. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The District pays all appointed officials' bonds by statute.

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

Dental insurance is offered to employees through a self-insurance internal service fund. The claims liability of \$63,425 reported in the internal service fund at fiscal year end is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the fiscal year follows:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claims</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
FY 1999	\$ 58,548	\$ 218,702	\$ 213,825	\$ 63,425

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 11 - EMPLOYEE RETIREMENT SYSTEM

SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 9% of their annual covered salary and the Hillsboro City School District is required to contribute 14%. The contribution rates are not determined actuarially, but are established by SERS' Retirement board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's contributions to SERS for the years ending June 30, 1999, 1998, and 1997 were \$312,270, \$274,650 and \$254,136, respectively. \$165,456 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

STATE TEACHERS RETIREMENT SYSTEM

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

Plan members are required to contribute 9.3% of their annual covered salary and the Hillsboro City School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not exceed statutory maximum rates of 10% for members and 14% for employers. The District's contributions to STRS for the years ending June 30, 1999, 1998, and 1997 were \$978,228, \$919,404, and \$878,628, respectively, equal to the required contributions for each year. \$166,280 represents the unpaid contribution for fiscal year 1999, and is recorded as a liability within the respective funds.

POST-EMPLOYMENT BENEFITS

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 11 - EMPLOYEE RETIREMENT SYSTEM (continued)

include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1998, the Board allocated employer contributions equal to 3.5 percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1998, this allocation was increased to 8 percent.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,156 million at June 30, 1998 (the latest information available). For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

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

For fiscal year 1999, employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 4.21 percent for fiscal year 1998. 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 1999, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care at June 30, 1999, were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 51,000 participants currently receiving health care benefits.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING

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

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

<u>Governmental Fund Types</u>	<u>Special General Fund</u>	<u>Capital Revenue Funds</u>	<u>Projects Fund</u>
GAAP Basis	\$ 561,358	\$ 159,284	\$(29,898)
Net Adjustment for Revenue Accruals	(244,574)	82,693	0
Net Adjustment for Encumbrances	(272,920)	(278,372)	(186,415)
Net Adjustment for Expenditure Accruals	<u>(151,832)</u>	<u>(48,715)</u>	<u>60,059</u>
Budgetary Basis	\$ <u>107,968</u>	\$ <u>(85,110)</u>	\$ <u>(156,254)</u>

NOTE 13 - ACCOUNTABILITY

The General Fund had a deficit fund balance of \$758,057 at June 30, 1999. This deficit is the result of the application of generally accepted accounting principles. The Enterprise Fund had a deficit retained earnings balance of \$139,360. This deficit is expected to be provided for through future revenues.

NOTE 14 - CONTINGENT LIABILITIES

Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. Management is unable to estimate possible claims resulting

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 14 - CONTINGENT LIABILITIES (continued)

from such audits until the audits have been completed. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

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

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

NOTE 16 - SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1999, the District received \$ 7,654,617 of school foundation support for its general fund, and \$ 7,739,584 in total (all funds) support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 16 – SCHOOL FUNDING DECISION (continued)

in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the “thorough and efficient” clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

NOTE 17 – STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 1999, the reserve activity (cash basis) was as follows:

	Textbook <u>Reserve</u>	Capital Maintenance <u>Reserve</u>	Budget Stabilization <u>Reserve</u>
Balance, Beginning of Year	\$ 0	\$ 0	\$ 75,952
Required Set-Aside	213,194	213,194	106,597
Offset Credits	(39,730)	(332,733)	0
Qualifying Expenditures	<u>(313,022)</u>	<u>(228,919)</u>	<u>0</u>
Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$182,549</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 18 - RESTATEMENT OF RETAINED EARNINGS/ACCOUNT GROUP BALANCES

Due to errors in the prior year's financial statements, fixed assets were restated in the Food Service Enterprise Fund and the General Fixed Assets Account Group. The change in reporting had the following effect on fund equity as it was previously reported as of June 30, 1998:

Fund Type	Balance June 30, 1998	Adjustments	Balance July 1, 1998
Enterprise Fund	(\$82,674)	\$7,067	(\$75,607)
General Fixed Assets Account Group	10,757,796	146,797	10,904,593

NOTE 19 - INTERFUND ACTIVITY

As of June 30, 1999, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Receivable	Payable
General Fund	\$141,000	\$0
Capital Projects Fund	5,000	
Special Revenue		3,000
Enterprise Fund	<u>0</u>	<u>143,000</u>
Total All Funds	<u>\$146,000</u>	<u>\$146,000</u>

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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$39,697	\$0	\$42,955
School Breakfast Program	05-PU-98	10.553	4,825	0	4,825	0
	05-PU-99	10.553	29,985	0	29,985	0
			34,810	0	34,810	0
National School Lunch Program	03-PU-98	10.555	5,617	0	5,617	0
	03-PU-99	10.555	31,882	0	31,882	0
	04-PU-98	10.555	18,160	0	18,160	0
	04-PU-99	10.555	114,407	0	114,407	0
			170,066	0	170,066	0
Special Milk Program for Children	02-PU-98	10.556	734	0	734	0
	02-PU-99	10.556	3,670	0	3,670	0
			4,404	0	4,404	0
Summer Food Service Program for Children	23-ML-98	10.559	2,468	0	2,468	0
	23-ML-99	10.559	5,697	0	2,507	0
	24-AD-98	10.559	173	0	173	0
	24-AD-99	10.559	303	0	0	0
			8,641	0	5,148	0
Total U.S. Department of Agriculture - Nutrition Cluster			217,921	39,697	214,428	42,955
U.S. DEPARTMENT OF LABOR						
<i>Passed Through Ohio Department of Education:</i>						
Employment Services and Job Training - Pilot Program	WK-BE-98	17.249	15,000	0	2,626	0
<i>Passed Through Region 7 School-to-Work Jackson City School District-Fiscal Agent:</i>						
Employment Services and Job Training - Pilot Program	N/A	17.249	14,000	0	5,749	0
<i>Passed Through Great Oaks Institute of Technology:</i>						
Employment Services and Job Training - Pilot Program	N/A	17.249	500	0	326	0
Total U.S. Department of Labor			29,500	0	8,701	0
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Great Oaks Institute of Technology:</i>						
Vocational Education - Basic Grants to States	N/A	84.048	7,337	0	12,081	0
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States	6B-SF-98	84.027	0	0	27,371	0
	6B-SF-99	84.027	54,967	0	53,452	0
			54,967	0	80,823	0
Special Education - Preschool Grants	PG-S1-98	84.173	0	0	3,324	0
	PG-S1-99	84.173	4,056	0	0	0
			4,056	0	3,324	0
Total Special Education Cluster			59,023	0	84,147	0

(continued)

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999
(Continued)

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
Title I Grants to Local Educational Agencies	C1-SD-97	84.010	0	0	947	0
	C1-S1-98	84.010	104,340	0	154,394	
	C1-S1-99	84.010	385,739	0	349,347	0
			490,079	0	504,688	0
Safe and Drug-Free Schools and Communities - State Grants	DR-S1-98	84.186	0	0	9,618	0
	DR-S1-99	84.186	34,904	0	23,506	0
			34,904	0	33,124	0
Goals 2000 - State and Local Education Systemic Improvement	G2-S2-98	84.276	0	0	4,379	0
	G2-S2-99	84.276	10,000	0	174	0
			10,000	0	4,553	0
Eisenhower Professional Development State Grants	MS-S1-97	84.281	0	0	625	0
	MS-S1-98	84.281	0	0	13,137	0
	MS-S1-99	84.281	14,535	0	10,404	0
			14,535	0	24,166	0
Innovative Education Program Strategies	C2-S1-98	84.298	0	0	1,652	0
	C2-S1-99	84.298	10,345	0	10,309	0
			10,345	0	11,961	0
Technology Literacy Challenge Program	TF-S1-98	84.318	150,000	0	0	0
Total U.S. Department of Education			768,886	0	662,639	0
Totals			\$1,023,644	\$39,697	\$897,849	\$42,955

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U. S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department are commingled with State grants. It is assumed federal monies are expended first. At June 30, 1999, the District had an insignificant amount of food commodities in their inventory.

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

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

To the Board of Education:

We have audited the accompanying financial statements of the Hillsboro City School District, Highland County, Ohio (the District), as of and for the fiscal year ended June 30, 1999, and have issued our report thereon dated March 22, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 22, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 22, 2000.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

March 22, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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

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

To the Board of Education:

Compliance

We have audited the compliance of Hillsboro City School District, Highland County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to its major federal programs for the fiscal year ended June 30, 1999. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on Hillsboro City School District's compliance based on our audit.

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

In our opinion, Hillsboro City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the fiscal year ended June 30, 1999.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design

or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

March 22, 2000

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 1999

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title 1- CFDA #84.010 Nutrition Cluster - CFDA #'s 10.550, 10.553, 10.555, 10.556, 10.559
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 11, 2000**