

Hillsboro City School District

Highland County

Single Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER CPAs, INC.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Hillsboro City School District

We have reviewed the Independent Auditor's Report of the Hillsboro City School District, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 11, 2005

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Hillsboro City School District
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsboro City School District (the District), Highland County, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 *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 basic 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 the 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.

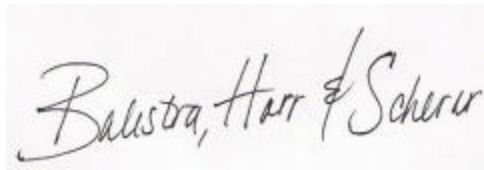
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof 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 March 28, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 9 and pages 41 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board
Hillsboro City School District
Independent Auditor's Report

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

March 28, 2005

HILLSBORO CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$1,287,387 represents a 14% decrease from 2003.
- General revenues accounted for \$19,099,419 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,282,980 or 18% of total revenues of \$23,382,399.
- Total assets of governmental activities decreased by \$1,690,437 as taxes receivable increased by \$542,510 while cash and other receivables decreased by \$8,740,522.
- The District had \$24,669,786 in expenses related to governmental activities; \$4,282,980 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$19,099,419 were not adequate to provide for these programs.
- As the major fund, the General Fund had \$18,839,526 in revenues and \$18,714,986 in expenditures. The General Fund's balance increased from (\$337,936) to (\$264,548).

Using this Basic Financial Statement 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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answers 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 account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds are presented in the Fund Financial Statements. Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

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

The District as a Whole

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

Table 1 provides a summary of the District's net assets for 2003 compared to 2004:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Assets		
Current and Other Assets	\$22,890,970	\$14,690,676
Capital Assets	<u>10,327,406</u>	<u>16,837,263</u>
Total Assets	<u>33,218,376</u>	<u>31,527,939</u>
Liabilities		
Long-Term Liabilities	10,859,177	10,675,830
Other Liabilities	<u>13,446,710</u>	<u>13,227,007</u>
Total Liabilities	<u>24,305,887</u>	<u>23,902,837</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	6,096,076	3,935,965
Restricted	12,809,419	4,447,634
Unrestricted	<u>(9,993,006)</u>	<u>(758,497)</u>
Total Net Assets	<u>\$8,912,489</u>	<u>\$7,625,102</u>

Total assets decreased \$1,690,437. Equity in pooled cash and cash equivalents decreased \$8,936,642. Taxes receivable increased \$542,510. Total liabilities decreased \$403,050, resulting in a net asset decrease of \$1,287,387.

Table 2 shows the change in net assets for fiscal year 2004.

Table 2
Changes in Net Assets

	Governmental Activities	
	<u>2003 Restated</u>	<u>2004</u>
Revenues		
Program Revenues:		
Charges for Services	\$963,464	\$1,067,011
Operating Grants	2,572,659	3,181,175
Capital Grants	69,191	34,794
General Revenue:		
Income Taxes	1,930,460	2,003,539
Property Taxes	5,442,051	6,150,344
Grants and Entitlements	9,930,018	10,536,860
Other	<u>566,354</u>	<u>408,676</u>
Total Revenues	<u>21,474,197</u>	<u>23,382,399</u>
Program Expenses:		
Instruction	11,459,576	13,670,688
Support Services:		
Pupil and Instructional Staff	2,682,273	2,856,523
General and School Administrative, Fiscal and Business	1,852,688	2,303,738
Operations and Maintenance	1,617,045	1,648,527
Pupil Transportation	834,466	1,292,041
Central	47,919	28,980
Community Services	184,385	0
Extracurricular Activities	142,035	878,911
Operation of Non-Instructional Services	689,994	1,443,090
Interest and Fiscal Charges	<u>537,091</u>	<u>547,288</u>
Total Expenses	<u>20,047,472</u>	<u>24,669,786</u>
Increase (decrease) in Net Assets	1,426,725	(1,287,387)
Beginning Net Assets	<u>7,485,764</u>	<u>8,912,489</u>
Ending Net Assets	<u>\$8,912,489</u>	<u>\$7,625,102</u>

Of the total governmental activities revenues of \$23,382,399, \$4,282,980 is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, \$8,153,883 (43%) comes from income tax and property tax levies and \$10,536,860 (55%) is from state and federal funding. This District's operations are reliant upon its income tax and property tax levy and the state's foundation program.

Net assets decreased \$1,287,387, which was caused mainly by an increase in instructional expenditures (wages, etc.) and pupil transportation expenditures (buses, etc.).

Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes and grants and entitlements comprised 71% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a 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.

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 26% of revenue for governmental activities for the District in fiscal year 2004.

Instruction comprises 55% of governmental program expenses. Support services expenses were 33% of governmental program expenses. All other expenses and interest expense was 12%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

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

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2003 Restated</u>	<u>2004</u>	<u>2003 Restated</u>	<u>2004</u>
Instruction	\$11,459,576	\$13,670,688	\$9,539,359	\$11,545,781
Support Services:				
Pupil and Instructional Staff Board, Administration, Fiscal and Business	2,682,273	2,856,523	2,126,809	2,036,170
Operations and Maintenance	1,852,688	2,303,738	1,760,815	2,182,002
Pupil Transportation	1,617,045	1,648,527	1,482,055	1,495,398
Central	834,466	1,292,041	764,006	1,255,707
Community Service	47,919	28,980	33,874	4,797
Operation of Non-Instructional Services	184,385	0	79,509	0
Extracurricular Activities	689,994	1,443,090	340,372	860,035
Interest and Fiscal Charges	142,035	878,911	(221,732)	459,628
	<u>537,091</u>	<u>547,288</u>	<u>537,091</u>	<u>547,288</u>
Total Expenses	<u>\$20,047,472</u>	<u>\$24,669,786</u>	<u>\$16,442,158</u>	<u>\$20,386,806</u>

The District's Funds

Information about the District's major funds is presented in the Fund Financial Statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$23,502,398 and expenditures and other financing uses of \$31,368,829. The net change in fund balance for the year was (\$7,866,431).

The general fund balance increased from (\$337,936) to (\$264,548) due to an increase in tax and intergovernmental revenue. The debt service fund balance increased from (\$3,185,728) to (\$2,919,250) due to an increase in tax revenue. The building fund balance decreased from \$10,724,561 to \$2,311,862 due to an increase in capital outlay for a building project.

General Fund Budgeting Highlights

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

The District amended its general fund budget once at the fiscal year end. The District revised the Budget to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$18,702,506, above original budget estimates of \$17,590,527. Of this \$1,111,979 difference, most was due to differences in estimates for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$334,693 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$16,837,263 invested in land, buildings, and equipment. Table 4 shows fiscal 2004 balances compared to fiscal 2003:

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

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Land	\$1,522,499	\$1,522,499
Buildings and Improvements	3,324,118	3,218,425
Equipment	1,948,121	1,526,883
Construction in Progress	<u>3,532,668</u>	<u>10,569,456</u>
Total Net Assets	<u>\$10,327,406</u>	<u>\$16,837,263</u>

The increase in capital assets is mainly due to \$7,036,788 in construction in progress additions, offset by the recognition of \$575,691 in depreciation. This District continues its ongoing commitment to maintaining and improving its capital assets.

Debt

At June 30, 2004, the District had \$9,651,298 in bonds payable, \$246,298 due within one year. Table 5 summarizes outstanding debt at year end.

Table 5
Outstanding Debt, at Year End

	Governmental Activities 2003	Governmental Activities 2004
Bonds Payable:		
School Improvement Bonds	\$9,850,000	\$9,630,000
Energy Conservation	<u>62,264</u>	<u>21,298</u>
Total Outstanding Debt at Year End	<u>\$9,912,264</u>	<u>\$9,651,298</u>

Detailed information relating to capital assets and debt is presented in the Notes to the Basic Financial Statements.

For the Future

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not "equitable" nor "adequate". The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court's concerns.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

In addition, the District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Beverly Rhoads, Treasurer at Hillsboro City School District, 338 West Main Street, Hillsboro, Ohio 45133.

Hillsboro City School District
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$5,377,409
Restricted Cash and Investments	290,961
Receivables:	
Taxes	8,553,152
Accounts	29,442
Intergovernmental	434,805
Inventory	4,907
Nondepreciable Capital Assets	12,091,955
Depreciable Capital Assets, Net	<u>4,745,308</u>
 Total Assets	 <u>31,527,939</u>
Liabilities:	
Accounts Payable	694,227
Accrued Wages and Benefits	2,030,220
Retainage Payable	215,009
Accrued Interest Payable	34,550
Deferred Revenue	6,949,101
Claims Payable	53,900
General Obligation Notes Payable	3,250,000
Long-Term Liabilities:	
Due Within One Year	347,463
Due In More Than One Year	<u>10,328,367</u>
 Total Liabilities	 <u>23,902,837</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	3,935,965
Restricted for:	
Special Revenue	706,850
Capital Projects	3,664,832
Set-Aside	75,952
Unrestricted	<u>(758,497)</u>
 Total Net Assets	 <u>\$7,625,102</u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$10,139,769	\$270,462	\$248,822	\$0	(\$9,620,485)
Special	1,995,038	0	655,725	0	(1,339,313)
Vocational	668,689	0	0	0	(668,689)
Other	867,192	7,011	942,887	0	82,706
Support Services:					
Pupil	1,028,413	189,025	35,205	0	(804,183)
Instructional Staff	1,828,110	76,964	519,159	0	(1,231,987)
General Administration	24,153	0	0	0	(24,153)
School Administration	1,952,004	50,177	63,343	0	(1,838,484)
Fiscal	327,581	0	8,216	0	(319,365)
Operations and Maintenance	1,648,527	1,079	152,050	0	(1,495,398)
Pupil Transportation	1,292,041	0	1,540	34,794	(1,255,707)
Central	28,980	7,274	16,909	0	(4,797)
Operation of Non-Instructional Services	1,443,090	45,736	537,319	0	(860,035)
Extracurricular Activities	878,911	419,283	0	0	(459,628)
Interest and Fiscal Charges	547,288	0	0	0	(547,288)
Total Governmental Activities	24,669,786	1,067,011	3,181,175	34,794	(20,386,806)
General Revenues:					
Income Taxes					2,003,539
Property Taxes Levied for:					
General Purposes					5,060,578
Special Revenue Purposes					112,304
Debt Service Purposes					977,462
Grants and Entitlements not Restricted to Specific Programs					10,536,860
Unrestricted Contributions					30,328
Investment Earnings					176,239
Other Revenues					202,109
Total General Revenues					19,099,419
Change in Net Assets					(1,287,387)
Net Assets Beginning of Year (Restated - See Note 18)					8,912,489
Net Assets End of Year					\$7,625,102

See accompanying notes to the basic financial statements.

Hillsboro City School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$223,579	\$246,829	\$2,752,823	\$2,130,223	\$5,353,454
Restricted Cash and Investments	75,952	0	215,009	0	290,961
Receivables:					
Taxes	8,417,583	129,816	0	5,753	8,553,152
Accounts	28,587	0	0	855	29,442
Intergovernmental	0	0	0	434,805	434,805
Interfund	71,583	0	7,586	0	79,169
Inventory	0	0	0	4,907	4,907
Total Assets	8,817,284	376,645	2,975,418	2,576,543	14,745,890
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	78,632	0	446,487	169,108	694,227
Accrued Wages and Benefits	1,698,524	0	0	175,904	1,874,428
Compensated Absences	45,093	0	0	0	45,093
Retainage Payable	0	0	215,009	0	215,009
Interfund Payable	0	0	2,060	77,109	79,169
Deferred Revenue	7,259,583	45,895	0	71,048	7,376,526
General Obligation Notes Payable	0	3,250,000	0	0	3,250,000
Total Liabilities	9,081,832	3,295,895	663,556	493,169	13,534,452
Fund Balances:					
Reserved for Encumbrances	215,104	0	1,034,053	201,121	1,450,278
Reserved for Inventory	0	0	0	4,907	4,907
Reserved for Property Tax Advances	438,490	83,921	0	5,753	528,164
Reserved for Set-Aside	75,952	0	0	0	75,952
Unreserved, Designated for General Fund	217,825	0	0	0	217,825
Unreserved, Undesignated, Reported in:					
General Fund	(1,211,919)	0	0	0	(1,211,919)
Special Revenue Funds	0	0	0	586,273	586,273
Debt Service Funds	0	(3,003,171)	0	0	(3,003,171)
Capital Projects Funds	0	0	1,277,809	1,285,320	2,563,129
Total Fund Balances	(264,548)	(2,919,250)	2,311,862	2,083,374	1,211,438
Total Liabilities and Fund Balances	\$8,817,284	\$376,645	\$2,975,418	\$2,576,543	\$14,745,890

See accompanying notes to the basic financial statements.

Hillsboro City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balance		\$1,211,438
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		16,837,263
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	356,377	
Intergovernmental	<u>71,048</u>	
		427,425
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(29,945)
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(34,550)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Pension Obligation	(155,792)	
Compensated Absences	<u>(979,439)</u>	
		(1,135,231)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(9,651,298)</u>
Net Assets of Governmental Activities		<u>\$7,625,102</u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Debt Service	Building	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$7,056,243	\$930,498	\$0	\$112,373	\$8,099,114
Tuition and Fees	116,833	0	0	10,677	127,510
Investment Earnings	34,741	0	122,079	19,419	176,239
Intergovernmental	11,461,853	93,443	0	2,319,011	13,874,307
Extracurricular Activities	0	0	0	365,345	365,345
Charges for Services	0	0	0	522,918	522,918
Other Revenues	169,856	0	0	111,679	281,535
Total Revenues	18,839,526	1,023,941	122,079	3,461,422	23,446,968
Expenditures:					
Current:					
Instruction:					
Regular	8,593,163	0	0	382,061	8,975,224
Special	1,171,077	0	0	789,600	1,960,677
Vocational	663,360	0	0	0	663,360
Other	841,169	0	0	26,023	867,192
Support Services:					
Pupil	971,425	0	0	58,746	1,030,171
Instructional Staff	1,290,698	0	0	519,201	1,809,899
General Administration	24,153	0	0	0	24,153
School Administration	1,936,197	0	0	13,718	1,949,915
Fiscal	324,136	0	0	2,338	326,474
Operations and Maintenance	1,470,288	0	73,181	91,201	1,634,670
Pupil Transportation	1,004,921	0	0	2,205	1,007,126
Central	11,944	0	0	17,036	28,980
Operation of Non-Instructional Services	75,455	0	0	1,098,055	1,173,510
Extracurricular Activities	233,640	0	0	256,900	490,540
Capital Outlay	103,360	0	8,461,597	7,500	8,572,457
Debt Service:					
Principal Retirement	0	260,966	0	0	260,966
Interest and Fiscal Charges	0	540,224	0	0	540,224
Total Expenditures	18,714,986	801,190	8,534,778	3,264,584	31,315,538
Excess of Revenues Over (Under) Expenditures	124,540	222,751	(8,412,699)	196,838	(7,868,570)
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	2,139	0	0	0	2,139
Transfers In	0	43,727	0	9,564	53,291
Transfers (Out)	(53,291)	0	0	0	(53,291)
Total Other Financing Sources (Uses)	(51,152)	43,727	0	9,564	2,139
Net Change in Fund Balance	73,388	266,478	(8,412,699)	206,402	(7,866,431)
Fund Balance Beginning of Year	(337,936)	(3,185,728)	10,724,561	1,876,972	9,077,869
Fund Balance End of Year	(\$264,548)	(\$2,919,250)	\$2,311,862	\$2,083,374	\$1,211,438

See accompanying notes to the basic financial statements.

Hillsboro City School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balance - Total Governmental Funds (\$7,866,431)

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

Governmental funds report capital asset additions 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 of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	7,085,548	
Depreciation Expense	<u>(575,691)</u>	6,509,857

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

Delinquent Property Taxes	54,768	
Intergovernmental	<u>(121,476)</u>	(66,708)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 260,966

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. (7,064)

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

Pension Obligation	(13,432)	
Compensated Absences	<u>(80,161)</u>	(93,593)

The internal service fund used by management to charge back costs to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (24,414)

Change in Net Assets of Governmental Activities	<u><u>(\$1,287,387)</u></u>
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See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Net Assets
Proprietary Funds
June 30, 2004

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$23,955</u>
Total Current Assets	<u>23,955</u>
Total Assets	<u>23,955</u>
Liabilities:	
Current Liabilities:	
Claims Payable	<u>53,900</u>
Total Current Liabilities	<u>53,900</u>
Total Liabilities	<u>53,900</u>
Net Assets:	
Unrestricted	<u>(29,945)</u>
Total Net Assets	<u>(\$29,945)</u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities- Internal Service Fund</u>
Operating Revenues:	
Charges for Services	<u>\$222,706</u>
Total Operating Revenues	<u>222,706</u>
Operating Expenses:	
Contactual Services	<u>247,120</u>
Total Operating Expenses	<u>247,120</u>
Operating Income (Loss)	<u>(24,414)</u>
Change in Net Assets	(24,414)
Net Assets Beginning of Year	<u>(5,531)</u>
Net Assets End of Year	<u><u>(\$29,945)</u></u>

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities- Internal Service Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$222,706
Cash Payments to Suppliers	<u>(242,327)</u>
Net Cash Provided (Used) by Operating Activities	<u>(19,621)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(19,621)
Cash and Cash Equivalents Beginning of Year	<u>43,576</u>
Cash and Cash Equivalents End of Year	<u><u>23,955</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(24,414)
Changes in Assets & Liabilities:	
Increase (Decrease) in Payables	<u>4,793</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$19,621)</u></u>

Hillsboro City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in Pooled Cash and Investments	<u>\$7,718</u>	<u>\$103,141</u>
Total Assets	<u>7,718</u>	<u>\$103,141</u>
Liabilities:		
Accounts Payable	0	8,803
Other Liabilities	<u>0</u>	<u>94,338</u>
Total Liabilities	<u>0</u>	<u>\$103,141</u>
Net Assets:		
Held in Trust	<u>7,718</u>	
Total Net Assets	<u>\$7,718</u>	

See accompanying notes to the basic financial statements.

Hillsboro City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust
Additions:	
Total Additions	<u>\$0</u>
Deductions:	
Other	<u>2,500</u>
Total Deductions	<u>2,500</u>
Change in Net Assets	(2,500)
Net Assets Beginning of Year	<u>10,218</u>
Net Assets End of Year	<u><u>\$7,718</u></u>

See accompanying notes to the basic financial statements.

HILLSBORO CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

1. DESCRIPTION OF THE DISTRICT

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

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 128 non-certificated personnel and 206 certificated teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the District's ADM is 2,833. 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.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds and account groups of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

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 also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989, to its governmental activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. For proprietary funds, the District has elected not to follow subsequent private-sector guidance. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

The 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.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison for each function or program of the 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 and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fiduciary funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

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

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

Building Fund – The building fund is used to account for the receipts and expenditures related to the construction of school buildings.

Proprietary Funds

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 District has no enterprise funds.

Internal Service Fund – This fund is used to account for the financing of services provided by one department to other departments of the District on a cost-reimbursement basis.

Fiduciary Funds

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students.

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

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

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

CASH AND CASH EQUIVALENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "equity in pooled cash and investments" on the financial statements.

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

The District has invested funds in federal securities, money market funds, and the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2004 amounted to \$176,239.

For purposes of the statement of cash flows, the Internal Service fund portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the fund without prior notice or penalty.

INVENTORY

Inventories are presented at cost on a first in, first out basis and are expended/expensed when used. Inventory consists of food held for resale and consumable supplies.

CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the 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 year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two thousand dollars (\$2,000). The 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. Interest on constructed capital assets is capitalized.

All reported capital assets are depreciated, except land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 40 years
Equipment	3 - 15 years

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, 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 amounts held in retainage for contractors.

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vested payment method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount due to the employee at year end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

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

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not Eligible	Per Board Policy	10-20 days
Termination Entitlement	Not Applicable	Per Board Policy	Per Board Policy
<u>Sick Leave</u>			
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	245 days	245 days	245 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Board Policy	Per Board Policy

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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

OPERATING REVENUES AND EXPENSES

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

FUND BALANCE RESERVES AND DESIGNATIONS

The District reserves those portions of fund equity 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 property taxes, inventory, budget stabilization and encumbrances.

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 monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The designation for budget stabilization represents revenues set aside that exceed statutorily required amounts.

In the General Fund, the \$217,825 portion of the non-BWC (Bureau of Workers' Compensation) monies was designated for set-aside.

INTERFUND ACTIVITY

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

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated on the governmental activities column of the statement of net assets.

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.

3. CASH AND CASH EQUIVALENTS

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

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

Active Monies - Those monies 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.

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 designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) Repurchase agreements in the securities enumerated above.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but not limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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

Deposits – At the year end, the carrying amount of the District's deposits was \$1,406,732. The bank balance of deposits was \$2,090,360 of which \$181,524 was covered by federal depository insurance. The remaining balance was covered by 110% public depository pool, which was collateralized with securities held by the pledging financial institution's trust department but not in the District's name.

Investments – The District's investments are categorized to give an indication of the level of risk assumed by the entity at year end (GASB Statement 3):

- Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the District's name.

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

<u>Description</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount/ Fair Value</u>
Federal Agency Securities	\$0	\$0	\$4,114,748	\$4,114,748
Money Market*	0	0	0	62,057
State Treasury Pool*	0	0	0	195,692
Total Investments	<u>\$0</u>	<u>\$0</u>	<u>\$4,114,748</u>	<u>\$4,372,497</u>

*The District's Investment in the Ohio State Treasury Pool and Money Market Funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

4. PROPERTY TAXES

Real property taxes collected in 2004 were levied in April on the assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). In 2004, each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2004, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The 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. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2004 and for which there is an enforceable legal claim. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004, was \$438,490 for General Fund, \$5,753 for Special Revenue and \$83,921 for Debt Service, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2004 operations.

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

The assessed values upon which the taxes were collected are:

	2003 <u>Amount</u>	2004 <u>Amount</u>
Agricultural/Residential and Other Real Estate	\$200,500,830	\$223,454,500
Public Utility Personal	11,276,880	11,608,320
Tangible Personal Property	<u>30,930,198</u>	<u>31,534,962</u>
Total	<u>\$242,707,908</u>	<u>\$266,597,782</u>

5. RECEIVABLES

Receivables at June 30, 2004, consisted of 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.

6. CAPITAL ASSETS

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

	Beginning <u>Balance Restated</u>	<u>Additions</u>	<u>Deductions</u>	Ending <u>Balance</u>
Government Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$1,522,499	\$0	\$0	\$1,522,499
Construction in Progress	<u>3,532,668</u>	<u>7,036,788</u>	<u>0</u>	<u>10,569,456</u>
Total Capital Assets, not being depreciated	<u>5,055,167</u>	<u>7,036,788</u>	<u>0</u>	<u>12,091,955</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	5,449,590	0	0	5,449,590
Equipment	<u>5,521,025</u>	<u>48,760</u>	<u>(114,447)</u>	<u>5,455,338</u>
Total Capital Assets, being depreciated	<u>10,970,615</u>	<u>48,760</u>	<u>(114,447)</u>	<u>10,904,928</u>
Totals at Historical Cost	<u>\$16,025,782</u>	<u>\$7,085,548</u>	<u>(\$114,447)</u>	<u>\$22,996,883</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(\$2,125,472)	(\$105,693)	\$0	(\$2,231,165)
Equipment	<u>(3,572,904)</u>	<u>(469,998)</u>	<u>114,447</u>	<u>(3,928,455)</u>
Total Accumulated Depreciation	<u>(\$5,698,376)</u>	<u>(\$575,691)</u>	<u>\$114,447</u>	<u>(\$6,159,620)</u>
Governmental Activities Capital Assets, Net	<u>\$10,327,406</u>	<u>\$6,509,857</u>	<u>\$0</u>	<u>\$16,837,263</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$281,143
Special	5,287
Vocational	3,694
Support Services:	
Pupil	1,874
Instructional Staff	13,832
School Administration	10,316
Fiscal	806
Operations and Maintenance	15,827
Pupil Transportation	222,218
Operation of Non-Instructional Services	5,605
Extracurricular Activities	<u>15,089</u>
Total Depreciation Expense	<u>\$575,691</u>

7. NOTES PAYABLE

During fiscal year 2004, the District issued one-year \$3,250,000 bond anticipation notes for the purpose of construction and renovation of buildings. This note will be repaid with tax revenue. This note is backed by the full faith and credit of the District. The note liability is reflected in the fund which received the proceeds.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Permanent Improvement				
Debt Service Fund:				
1.78% Bond Anticipation Note	\$3,450,000	\$ 0	\$3,450,000	\$ 0
2.26% Bond Anticipation Note	<u>0</u>	<u>3,250,000</u>	<u>0</u>	<u>3,250,000</u>
Totals	<u>\$3,450,000</u>	<u>\$3,250,000</u>	<u>\$3,450,000</u>	<u>\$3,250,000</u>

8. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>						
General Obligation Bonds:						
School Energy Conservation 1999 5.2%	9/21/04	\$62,264	\$ 0	\$40,966	\$21,298	\$21,298
School Improvement 2001 3.25%	12/01/28	<u>9,850,000</u>	<u>0</u>	<u>220,000</u>	<u>9,630,000</u>	<u>225,000</u>
Total General Obligation Bonds		9,912,264	0	260,966	9,651,298	246,298
Compensated Absences		<u>946,913</u>	<u>183,992</u>	<u>106,373</u>	<u>1,024,532</u>	<u>101,165</u>
Total Governmental Activities Long-Term Liabilities		<u>\$10,859,177</u>	<u>\$183,992</u>	<u>\$367,339</u>	<u>\$10,675,830</u>	<u>\$347,463</u>

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

Fiscal Year Ending June 30,	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$246,298	\$444,772	\$691,070
2006	230,000	436,825	666,825
2007	240,000	429,247	669,247
2008	250,000	421,158	671,158
2009	255,000	412,318	667,318
2010-2014	1,430,000	1,903,220	3,333,220
2015-2019	1,775,000	1,536,204	3,311,204
2020-2024	2,305,000	1,002,570	3,307,570
2025-2029	<u>2,920,000</u>	<u>371,174</u>	<u>3,291,174</u>
Totals	<u>\$9,651,298</u>	<u>\$6,957,488</u>	<u>\$16,608,786</u>

9. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The 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 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 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$447,228, \$396,492, and \$395,088 respectively; 48% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002.

STATE TEACHERS RETIREMENT SYSTEM

The District participates in 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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for 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 were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,382,832, \$1,270,068, and \$1,167,708 respectively; 83% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002.

10. POST EMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits included hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provision 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.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District, this amount equaled \$98,774 during the 2004 fiscal year. As of June 30, 2004, eligible benefit recipients totaled 111,853. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based upon 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% for those who apply.

For 2004 fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. For the District, this amount equaled \$156,849 during the 2004 fiscal year. The number of participants currently receiving health care benefits is approximately 62,000. For the fiscal year ended June 30, 2004, net health care costs paid by SERS were \$223,443,805.

11. 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.

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 as of June 30, 2004.

LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

12. 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.

13. 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 \$1,000,000 for each occurrence and \$3,000,000 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. There has been no significant change in coverage from the prior year. Settled claims have not exceeded coverage in any of the past 3 years.

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$35,771,626. 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 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 the Internal Service Fund. The claims liability of \$53,900 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 Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
FY 2004	\$49,107	\$247,120	\$242,327	\$53,900
FY 2003	113,271	122,102	186,266	49,107
FY 2002	82,845	220,455	190,029	113,271

14. STATE SCHOOL FUNDING DECISION

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

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

15. COMPLIANCE AND ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
General Fund	\$264,548
Special Revenue Fund:	
Food Service	59,448
Uniform School Supply	2,238
Debt Service	2,957,276
Internal Service	29,945

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

16. FUND BALANCE RESERVES FOR SET-ASIDES

The 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.

For fiscal year ended June 30, 2004, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$ 0	\$ 0	\$75,952
Current Year Set-aside Requirement	408,643	408,643	0
Carry Forward From FY2003	(550,566)	0	0
Qualified Disbursements	(371,891)	(169,289)	0
Current Year Offsets	0	(239,354)	0
Set-Aside Reserve Balance as of June 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$75,952</u>
Restricted Cash as of June 30, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$75,952</u>
Carry Forward to FY2005	<u>(\$513,814)</u>	<u>\$ 0</u>	<u>\$ 0</u>

Qualifying expenditures, including carry forward for textbook activity during the year were \$922,457, which exceeds the required set-aside reserve. Although the District had qualifying disbursements, including current year offsets, during the fiscal year that reduced the capital maintenance set-aside amount below zero, only the amount for the textbook set-aside may be used to reduce the set-aside requirement of future years.

17. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2004, consisted of the following individual fund receivables and payables:

	Interfund		Transfers	
	<u>Receivable</u>	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$71,583	\$0	\$0	\$53,291
Debt Service Fund	0	0	43,727	0
Building Fund	<u>7,586</u>	<u>2,060</u>	<u>0</u>	<u>0</u>
Nonmajor Funds:				
Student Activities	0	3,000	9,564	0
Title I	0	3,509	0	0
Food Service	0	68,000	0	0
Customer Service	<u>0</u>	<u>2,600</u>	<u>0</u>	<u>0</u>
Total Nonmajor Funds	<u>0</u>	<u>77,109</u>	<u>9,564</u>	<u>0</u>
 Total All Funds	 <u>\$79,169</u>	 <u>\$79,169</u>	 <u>\$53,291</u>	 <u>\$53,291</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

18. PRIOR PERIOD ADJUSTMENT

The beginning net asset governmental activities have been adjusted for correction to the capital assets detail due to adjustment made by the District to improve capital asset detail.

	Governmental <u>Activities</u>
June 30, 2003 Fund Balance/ Net Assets, as previously stated	\$8,029,255
Net Capital Assets	<u>883,234</u>
June 30, 2003 Fund Balance/ Net Assets, as restated	<u>\$8,912,489</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Hillsboro City School District
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$6,519,903	\$6,932,056	\$6,938,890	\$6,834
Tuition and Fees	128,929	137,079	137,214	135
Investment Earnings	32,643	34,707	34,741	34
Intergovernmental	10,769,758	11,450,565	11,461,853	11,288
Other Revenues	139,294	148,099	148,245	146
Total Revenues	17,590,527	18,702,506	18,720,943	18,437
Expenditures:				
Current:				
Instruction:				
Regular	2,006,786	8,486,428	8,658,751	(172,323)
Special	268,545	1,140,282	1,158,700	(18,418)
Vocational	158,059	669,359	681,981	(12,622)
Other	196,308	829,329	847,019	(17,690)
Support Services:				
Pupil	232,747	986,407	1,004,243	(17,836)
Instructional Staff	300,064	1,271,599	1,294,695	(23,096)
General Administration	5,598	24,877	24,153	724
School Administration	459,799	1,949,179	1,983,911	(34,732)
Fiscal	81,936	349,862	353,533	(3,671)
Operations and Maintenance	365,929	1,548,941	1,578,887	(29,946)
Pupil Transportation	246,968	1,045,912	1,065,601	(19,689)
Central	2,804	12,021	12,100	(79)
Operation of Non-Instructional Services	17,519	77,342	75,591	1,751
Extracurricular Activities	54,822	232,661	236,544	(3,883)
Capital Outlay	32,182	136,917	138,855	(1,938)
Total Expenditures	4,430,066	18,761,116	19,114,564	(353,448)
Excess of Revenues Over (Under) Expenditures	13,160,461	(58,610)	(393,621)	(335,011)
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	2,010	2,139	2,139	0
Transfers (Out)	(12,351)	(53,609)	(53,291)	318
Total Other Financing Sources (Uses)	(10,341)	(51,470)	(51,152)	318
Net Change in Fund Balance	13,150,120	(110,080)	(444,773)	(334,693)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	454,084	454,084	454,084	0
Fund Balance End of Year	\$13,604,204	\$344,004	\$9,311	(\$334,693)

See accompanying notes to the required supplementary information.

HILLSBORO CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2004

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations 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 amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2004.

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

While the 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 Combined Schedule 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 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 for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$73,388
Net Adjustment for Revenue Accruals	(118,583)
Net Adjustment for Expenditure Accruals	(105,843)
Encumbrances	<u>(293,735)</u>
Budget Basis	<u>(\$444,773)</u>

Hillsboro City School District
Highland County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	NA	10.550	\$0	\$67,560	\$0	\$67,560
National School Breakfast Program	05PU	10.553	53,607	0	53,607	0
National School Lunch Program	LLP4	10.555	269,393	0	269,393	0
Special Milk Program	24PU	10.556	349	0	349	0
Total United States Department of Agriculture			323,349	67,560	323,349	67,560
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education</i>						
Special Education Cluster:						
Special Education- Grants to States	6B-SF	84.027	286,199	0	291,245	0
Special Education- Handicapped Preschool	PGS1	84.173	5,377	0	5,377	0
Total Special Education Cluster			291,576	0	296,622	0
Title 1 Grants to Local Education Agencies	C1S1	84.010	664,296	0	663,578	0
Safe and Drug Free Schools and Communities	T4S1	84.184C	31,739	0	27,739	0
Safe and Drug Free Schools and Communities	DRS1	84.186	17,245	0	26,044	0
Innovative Education Program Strategy	C2S1	84.298	12,338	0	18,804	0
Education Technology State Grants	TJS1	84.318	19,497	0	16,007	0
Comprehensive School Reform Demonstration	RFS1	84.332	26,099	0	53,228	0
School Renovation, IDEA and Technology	ATS3	84.352A	1,670	0	19,017	0
Improving Teacher Quality State Grants	TRS1	84.367	220,099	0	204,770	0
Total United States Department of Education			1,284,559	0	1,325,809	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Title XIX	NA	93.778	62,747	0	62,747	0
Total United States Department of Health and Human Services			62,747	0	62,747	0
Total Federal Financial Assistance			\$1,670,655	\$67,560	\$1,711,905	\$67,560

N/A = Pass through entity number could not be located.
See Notes to the Schedule of Federal Awards Expenditures.

Hillsboro City School District, Ohio
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2004

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTIONS

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed that federal monies are expended first. At June 30, 2004, the School District had no significant food commodities in inventory.

NOTE C – MEDICAL ASSISTANCE PROGRAM

Receipts for this grant are posted to the general fund. It is assumed that federal monies are expended first.

BALESTRA, HARR & SCHERER CPAs, INC.

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Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hillsboro City School District (the District), Highland County, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-1.

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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above as item 2004-1 to be a material weakness.

Members of the Board
Hillsboro City School District

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*

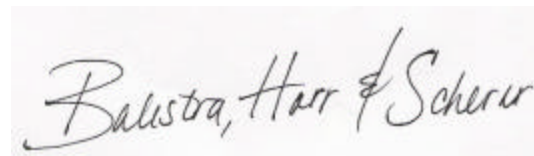
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, 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 material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

We noted certain matters that we reported to management of the District in a separate letter dated March 28, 2005.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

March 28, 2005

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board
Hillsboro City School District
338 West Main Street
Hillsboro, Ohio 45133

Compliance

We have audited the compliance of Hillsboro City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Members of the Board
Hillsboro City School District

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

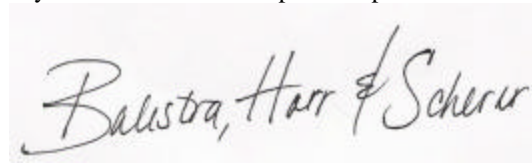
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Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit we considered the 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 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 noncompliance with applicable requirements of laws, regulation, 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 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 solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

March 28, 2005

Hillsboro City School District, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level	No
(d)(1)(iii)	Was there any reported noncompliance 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	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):	Title I CFDA # 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

Hillsboro City School District, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2004

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

Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

Finding Number 2004-1

The District has delegated employees’ dental insurance claims processing, which is a significant accounting function, to a third-party administrator. The District has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that dental insurance claims have not been completely and accurately processed in accordance with the dental insurance claims contract.

The District should implement procedures to assure the completeness and accuracy (including eligibility and allowability) of dental insurance claims processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70 as amended, prescribes standards for reporting on the processing (i.e. control design and operation) of transactions by service organizations. An unqualified Tier II “Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness” in accordance with SAS No. 70, should provide the District with an appropriate level of assurance that dental insurance claims are being processed in conformity with the contract. The District should, with help of its legal counsel, consider specifying in its contract with the third-party administrator that an annual Tier II SAS 70 audit report be performed. The District should be provided a copy of the SAS 70 timely and should review the report’s content. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants’ (AICPA) standards by a firm registered and considered in “good standing” with the Accountancy Board of the respective State. If the third-party administrator refuses to provide the District with a Tier II SAS 70 report, the District should consider a different third-party administrator that will provide such a report.

CORRECTIVE ACTION PLAN

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-1	The Treasurer will contact its third party administrator of self-insurance in an attempt to have a SAS 70 report completed.	6/30/05	Beverly Rhoads, Treasurer

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



**Auditor of State
Betty Montgomery**

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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
MAY 5, 2005**