



**Auditor of State  
Betty Montgomery**



**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets .....	13
Statement of Activities.....	14
Balance Sheet-Governmental Funds .....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	17
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis – General Fund .....	19
Statement of Fund Net Assets – Proprietary Fund .....	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	21
Statement of Cash Flows – Proprietary Fund .....	22
Statement of Fiduciary Net Assets – Fiduciary Funds .....	23
Notes to the Basic Financial Statements .....	24
Federal Award Expenditures Schedule.....	50
Notes to the Federal Award Expenditures Schedule .....	51
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	52
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	54
Schedule of Findings .....	56

**This page intentionally left blank.**



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the applicable budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District restated fund balances due to the implementation of Technical Bulletin No. 2004-2 "Recognition of Pension and Other Post employment Benefit Expenditures/Expenses and Liabilities by cost Sharing Employers."

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

March 15, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The discussion and analysis of the Harrison Hills City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$901,838 which represents a 9.92% increase from 2004.
- General revenues accounted for \$14,259,174 in revenue or 82.70% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$2,917,086 or 16.98% of total revenues of \$17,176,260.
- The District had \$16,340,214 in expenses related to governmental activities; \$2,917,086 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,259,174 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$13,602,785 in revenues and \$13,449,064 in expenditures. During fiscal 2005, the general fund's fund balance increased \$247,203 from \$3,950,490 to \$4,197,693.

**Using these Basic Financial Statements**

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

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

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

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

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

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

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

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

***Governmental Funds***

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

***Proprietary Funds***

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

***Reporting the District's Fiduciary Responsibilities***

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

***Notes to the Basic Financial Statements***

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

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2005 and 2004.

	<b>Net Assets</b>	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 13,555,131	\$ 12,675,265
Capital assets	<u>3,459,835</u>	<u>3,597,389</u>
Total assets	<u>17,014,966</u>	<u>16,272,654</u>
<b><u>Liabilities</u></b>		
Current liabilities	5,578,084	5,704,300
Long-term liabilities	<u>1,444,724</u>	<u>1,478,034</u>
Total liabilities	<u>7,022,808</u>	<u>7,182,334</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	3,265,817	3,356,593
Restricted	2,938,558	2,341,823
Unrestricted	<u>3,787,783</u>	<u>3,391,904</u>
Total net assets	<u>\$ 9,992,158</u>	<u>\$ 9,090,320</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$9,992,158. Of this total, \$3,787,783 is unrestricted in use.

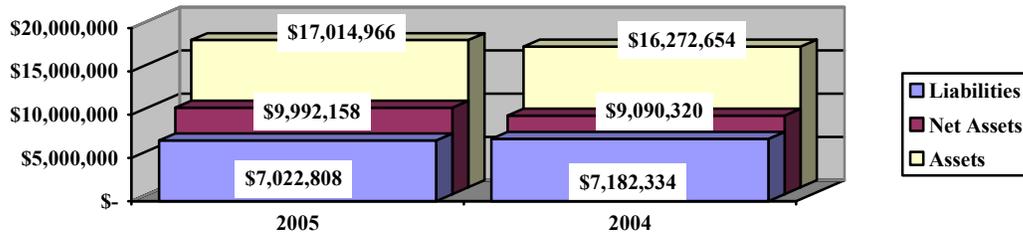
At year-end, capital assets represented 20.33% of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$3,265,817. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,938,558, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,787,783 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2005 and 2004.

**Change in Net Assets**

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 529,804	\$ 516,578
Operating grants and contributions	2,387,282	2,196,157
Capital grants and contributions	-	47,300
General revenues:		
Property taxes	4,531,733	4,150,447
Grants and entitlements	9,523,591	9,384,812
Investment earnings	154,081	66,995
Other	49,769	174,805
Total revenues	<u>17,176,260</u>	<u>16,537,094</u>
Extraordinary item	<u>65,792</u>	<u>-</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Change in Net Assets**

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 7,018,008	\$ 6,294,681
Special	1,835,960	1,769,237
Vocational	324,824	277,546
Support services:		
Pupil	813,978	734,570
Instructional staff	369,319	306,000
Board of education	157,088	134,947
Administration	1,438,019	1,303,193
Fiscal	457,587	424,842
Operations and maintenance	1,270,040	1,165,038
Pupil transportation	1,245,826	1,076,314
Central	250,420	201,767
Food service operations	758,396	726,184
Operations of non-instructional services	68,024	46,498
Extracurricular activities	322,348	247,957
Interest and fiscal charges	<u>10,377</u>	<u>12,829</u>
Total expenses	<u>16,340,214</u>	<u>14,721,603</u>
Change in net assets	901,838	1,815,491
Net assets at beginning of year	<u>9,090,320</u>	<u>7,274,829</u>
Net assets at end of year	<u><u>\$ 9,992,158</u></u>	<u><u>\$ 9,090,320</u></u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$901,838. Total governmental expenses of \$16,340,214 were offset by program revenues of \$2,917,086 and general revenues of \$14,259,174. Program revenues supported 17.85% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 81.83% of total governmental revenue.

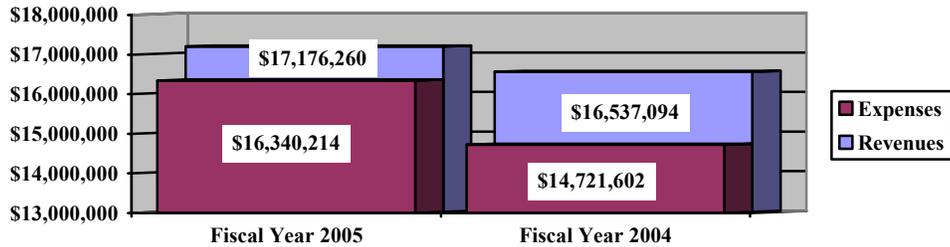
The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,178,792 or 56.17% of total governmental expenses for fiscal 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

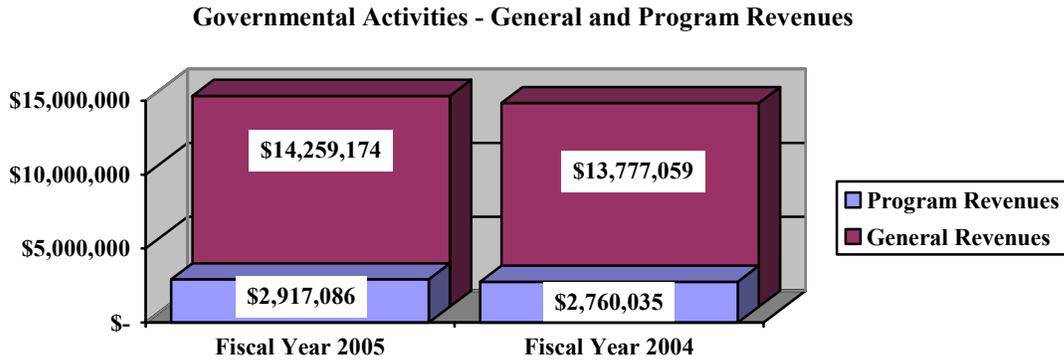
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 7,018,008	\$ 6,158,013	\$ 6,294,681	\$ 5,498,753
Special	1,835,960	1,262,755	1,769,237	1,208,145
Vocational	324,824	324,824	277,546	276,260
Support services:				
Pupil	813,978	537,347	734,570	518,040
Instructional staff	369,319	266,977	306,000	227,409
Board of education	157,088	157,088	134,947	134,447
Administration	1,438,019	1,325,089	1,303,193	1,197,504
Fiscal	457,587	457,587	424,842	424,842
Operations and maintenance	1,270,040	1,270,040	1,165,038	1,117,727
Pupil transportation	1,245,826	1,211,812	1,076,314	1,073,775
Central	250,420	221,275	201,767	163,969
Food service operations	758,396	(3,561)	726,184	(47,282)
Operation of non-instructional	68,024	68,024	46,498	46,498
Extracurricular activities	322,348	155,481	247,957	108,652
Interest and fiscal charges	10,377	10,377	12,829	12,829
<b>Total expenses</b>	<u>\$ 16,340,214</u>	<u>\$ 13,423,128</u>	<u>\$ 14,721,603</u>	<u>\$ 11,961,568</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 84.39% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.15%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$5,647,523, which is higher than last year's total of \$4,981,567. The June 30, 2004 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 4,197,693	\$ 3,950,490	\$ 247,203	6.26 %
Other Governmental	<u>1,449,830</u>	<u>1,031,077</u>	<u>418,753</u>	40.61 %
Total	<u>\$ 5,647,523</u>	<u>\$ 4,981,567</u>	<u>\$ 665,956</u>	13.37 %

**General Fund**

The District's general fund balance increased \$247,203 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues still exceeding increased expenditures.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

	2005	Restated 2004	Increase	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,939,404	\$ 3,743,047	\$ 196,357	5.25 %
Earnings on investments	119,858	50,678	69,180	136.51 %
Extracurricular	13,895	5,411	8,484	156.79 %
Intergovernmental	9,478,824	9,340,104	138,720	1.49 %
Other revenues	<u>35,690</u>	<u>167,636</u>	<u>(131,946)</u>	(78.71) %
 Total	 <u>\$ 13,587,671</u>	 <u>\$ 13,306,876</u>	 <u>\$ 280,795</u>	 2.11 %
<b><u>Expenditures</u></b>				
Instruction	\$ 7,753,669	\$ 7,310,039	\$ 443,630	6.07 %
Support services	5,272,002	4,911,736	360,266	7.33 %
Non-instructional services	41,670	36,404	5,266	14.47 %
Extracurricular activities	120,037	115,136	4,901	4.26 %
Facilities acquisition and construction	10,973	19,118	(8,145)	(42.60) %
Debt service	<u>57,155</u>	<u>58,649</u>	<u>(1,494)</u>	(2.55) %
 Total	 <u>\$ 13,255,506</u>	 <u>\$ 12,451,082</u>	 <u>\$ 804,424</u>	 6.46 %

***General Fund Budgeting Highlights***

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original and final budgeted revenues and other financing sources were \$14,000,095. Actual revenues and other financing sources for fiscal 2005 were \$14,102,469. This represents a \$102,374 increase over original and final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$14,893,068 were increased to \$15,502,511 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$14,125,712, which was \$1,376,799 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$3,459,835 invested in land, buildings and improvements, furniture and equipment, vehicles and infrastructure. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 10,561	\$ 10,561
Building and improvements	2,528,704	2,639,536
Furniture and equipment	390,356	419,299
Vehicles	520,613	518,082
Infrastructure	9,601	9,911
 Total	 \$ 3,459,835	 \$ 3,597,389

The overall decrease in capital assets of \$137,554 is due to depreciation expense of \$289,831 exceeding capital outlays of \$152,277 in the fiscal year.

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

***Debt Administration***

The District had \$194,018 in a capital lease liability at June 30, 2005. The District had no other debt outstanding at June 30, 2005. See Note 9 to the basic financial statements for additional information on the District's capital leases.

**Current Financial Related Activities**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

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

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

While the District is in desperate need of replacing its aging facilities, the permanent improvement levy expires at the end of the 2004 calendar year. This levy was renewed in November 2005. The Board and Administration can again focus on an OSFC project.

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

**Contacting the District's Financial Management**

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

BASIC  
FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . .	\$ 4,029,579
Cash with fiscal agent . . . . .	1,724,478
Investments . . . . .	2,439,048
Receivables:	
Taxes . . . . .	4,800,589
Accounts . . . . .	5,930
Intergovernmental . . . . .	278,934
Accrued interest . . . . .	21,444
Prepayments . . . . .	75,196
Materials and supplies inventory . . . . .	179,933
Capital assets:	
Land . . . . .	10,561
Depreciable capital assets, net . . . . .	3,449,274
Capital assets, net. . . . .	3,459,835
 Total assets. . . . .	 17,014,966
 <b>Liabilities:</b>	
Accounts payable. . . . .	140,260
Accrued wages and benefits . . . . .	1,299,399
Pension obligation payable. . . . .	323,662
Intergovernmental payable . . . . .	117,823
Deferred revenue . . . . .	3,385,980
Claims payable . . . . .	310,960
Long-term liabilities:	
Due within one year. . . . .	141,284
Due within more than one year . . . . .	1,303,440
Total liabilities . . . . .	7,022,808
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	3,265,817
Restricted for:	
Capital projects . . . . .	961,487
Endowment:	
Expendable . . . . .	90,514
Nonexpendable . . . . .	289,934
Federally funded programs . . . . .	48,538
State funded programs . . . . .	40,158
Other purposes . . . . .	1,507,927
Unrestricted. . . . .	3,787,783
Total net assets . . . . .	\$ 9,992,158

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 7,018,008	\$ 37,920	\$ 822,075	\$ (6,158,013)
Special . . . . .	1,835,960	-	573,205	(1,262,755)
Vocational . . . . .	324,824	-	-	(324,824)
Support services:				
Pupil . . . . .	813,978	-	276,631	(537,347)
Instructional staff . . . . .	369,319	-	102,342	(266,977)
Board of education . . . . .	157,088	-	-	(157,088)
Administration . . . . .	1,438,019	-	112,930	(1,325,089)
Fiscal . . . . .	457,587	-	-	(457,587)
Operations and maintenance . . . . .	1,270,040	-	-	(1,270,040)
Pupil transportation . . . . .	1,245,826	-	34,014	(1,211,812)
Central . . . . .	250,420	-	29,145	(221,275)
Operation of non-instructional services:				
Food service operations . . . . .	758,396	325,017	436,940	3,561
Other non-instructional services . . . . .	68,024	-	-	(68,024)
Extracurricular activities . . . . .	322,348	166,867	-	(155,481)
Interest and fiscal charges . . . . .	10,377	-	-	(10,377)
<b>Total governmental activities . . . . .</b>	<b>\$ 16,340,214</b>	<b>\$ 529,804</b>	<b>\$ 2,387,282</b>	<b>(13,423,128)</b>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				4,150,976
Capital projects . . . . .				380,757
Grants and entitlements not restricted to specific programs . . . . .				9,523,591
Investment earnings . . . . .				154,081
Miscellaneous . . . . .				49,769
<b>Total general revenues . . . . .</b>				<b>14,259,174</b>
<b>Extraordinary item:</b>				
Reimbursement of insurance claim . . . . .				65,792
<b>Total general revenues and extraordinary item . . . . .</b>				<b>14,324,966</b>
Change in net assets . . . . .				901,838
<b>Net assets at beginning of year . . . . .</b>				<b>9,090,320</b>
<b>Net assets at end of year . . . . .</b>				<b>\$ 9,992,158</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 1,422,681	\$ 1,195,923	\$ 2,618,604
Investments . . . . .	2,139,076	299,972	2,439,048
Receivables:			
Taxes . . . . .	4,541,336	259,253	4,800,589
Accounts . . . . .	2,972	2,958	5,930
Intergovernmental . . . . .	-	278,934	278,934
Accrued interest . . . . .	17,355	4,089	21,444
Interfund loans . . . . .	21,835	-	21,835
Prepayments . . . . .	75,196	-	75,196
Materials and supplies inventory . . . . .	160,029	19,904	179,933
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	1,410,975	-	1,410,975
Total assets . . . . .	\$ 9,791,455	\$ 2,061,033	\$ 11,852,488
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 102,723	\$ 37,537	\$ 140,260
Accrued wages and benefits . . . . .	1,086,884	212,515	1,299,399
Compensated absences payable . . . . .	46,759	3,362	50,121
Pension obligation payable . . . . .	270,449	53,213	323,662
Intergovernmental payable . . . . .	99,687	18,136	117,823
Interfund loan payable . . . . .	-	21,835	21,835
Deferred revenue . . . . .	3,987,260	264,605	4,251,865
Total liabilities . . . . .	5,593,762	611,203	6,204,965
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	294,796	224,996	519,792
Reserved for materials and supplies inventory . . . . .	160,029	17,799	177,828
Reserved for prepayments . . . . .	75,196	-	75,196
Reserved for property taxes . . . . .	560,741	-	560,741
Reserved for BWC refunds . . . . .	73,694	-	73,694
Reserved for capital acquisition . . . . .	916,923	-	916,923
Reserved for textbooks . . . . .	420,358	-	420,358
Reserved for unclaimed monies . . . . .	2,207	-	2,207
Reserved for endowment . . . . .	-	289,934	289,934
Unreserved, undesignated (deficit) reported in:			
General fund . . . . .	1,693,749	-	1,693,749
Special revenue funds . . . . .	-	109,264	109,264
Capital projects funds . . . . .	-	714,949	714,949
Permanent fund . . . . .	-	92,888	92,888
Total fund balances . . . . .	4,197,693	1,449,830	5,647,523
Total liabilities and fund balances . . . . .	\$ 9,791,455	\$ 2,061,033	\$ 11,852,488

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

<b>Total governmental fund balances</b>		\$	5,647,523
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,459,835
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Taxes	\$	853,868	
Interest		6,665	
Intergovernmental revenue		5,352	
Total			865,885
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			1,413,518
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		1,200,585	
Capital lease obligation		194,018	
Total			(1,394,603)
<b>Net assets of governmental activities</b>		\$	9,992,158

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 3,939,404	\$ 369,360	\$ 4,308,764
Charges for services. . . . .	-	325,017	325,017
Earnings on investments. . . . .	119,858	13,491	133,349
Extracurricular. . . . .	13,895	155,227	169,122
Classroom materials and fees . . . . .	19,079	18,841	37,920
Other local revenues. . . . .	16,611	30,903	47,514
Intergovernmental - State . . . . .	9,478,824	577,459	10,056,283
Intergovernmental - Federal. . . . .	-	1,910,859	1,910,859
Total revenue . . . . .	<u>13,587,671</u>	<u>3,401,157</u>	<u>16,988,828</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	6,115,882	865,461	6,981,343
Special. . . . .	1,306,841	538,011	1,844,852
Vocational. . . . .	330,946	-	330,946
Support services:			
Pupil. . . . .	574,472	262,423	836,895
Instructional staff . . . . .	261,994	97,974	359,968
Board of education . . . . .	157,088	-	157,088
Administration. . . . .	1,381,559	111,464	1,493,023
Fiscal . . . . .	445,437	15,323	460,760
Operations and maintenance. . . . .	1,109,074	23,949	1,133,023
Pupil transportation . . . . .	1,134,543	105,823	1,240,366
Central. . . . .	207,835	12,876	220,711
Operation of non-instructional services:			
Food service operations . . . . .	-	760,012	760,012
Other non-instructional services . . . . .	41,670	23,935	65,605
Extracurricular activities. . . . .	120,037	200,138	320,175
Facilities acquisition and construction . . . . .	10,973	154,730	165,703
Debt service:			
Principal retirement . . . . .	46,778	-	46,778
Interest and fiscal charges . . . . .	10,377	-	10,377
Total expenditures . . . . .	<u>13,255,506</u>	<u>3,172,119</u>	<u>16,427,625</u>
Excess of revenues over expenditures . . . . .	<u>332,165</u>	<u>229,038</u>	<u>561,203</u>
<b>Other financing sources (uses):</b>			
Transfers in. . . . .	15,114	193,558	208,672
Transfers (out) . . . . .	(193,558)	(15,114)	(208,672)
Total other financing sources (uses). . . . .	<u>(178,444)</u>	<u>178,444</u>	<u>-</u>
<b>Extraordinary item:</b>			
Reimbursement of insurance claims . . . . .	61,607	4,185	65,792
Net change in fund balances . . . . .	215,328	411,667	626,995
<b>Fund balances at beginning of year (restated) . . . . .</b>			
	3,950,490	1,031,077	4,981,567
<b>Increase in reserve for inventory. . . . .</b>	31,875	7,086	38,961
<b>Fund balances at end of year. . . . .</b>	<u>\$ 4,197,693</u>	<u>\$ 1,449,830</u>	<u>\$ 5,647,523</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**Net change in fund balances - total governmental funds** \$ 626,995

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital asset additions	\$	152,277	
Current year depreciation		(289,831)	
Total			(137,554)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. 38,961

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

Taxes		222,969	
Interest		5,639	
Intergovernmental		(56,269)	
Total			172,339

Repayment of capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 46,778

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 4,891

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 149,428

**Change in net assets of governmental activities** \$ 901,838

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,747,874	\$ 3,747,874	\$ 3,775,280	\$ 27,406
Earnings on investments . . . . .	119,977	119,977	120,854	877
Extracurricular . . . . .	15,168	15,168	15,279	111
Classroom materials and fees . . . . .	19,059	19,059	19,198	139
Other local revenues . . . . .	31,218	31,218	31,446	228
Intergovernmental - State . . . . .	9,410,014	9,410,014	9,478,824	68,810
Total revenue . . . . .	<u>13,343,310</u>	<u>13,343,310</u>	<u>13,440,881</u>	<u>97,571</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,898,336	6,289,605	6,139,429	150,176
Special . . . . .	1,270,100	1,344,141	1,317,273	26,868
Vocational . . . . .	314,482	340,232	336,104	4,128
Support services:				
Pupil . . . . .	519,924	604,398	595,035	9,363
Instructional staff . . . . .	248,335	272,335	267,451	4,884
Board of education . . . . .	171,287	175,287	172,836	2,451
Administration . . . . .	1,472,729	1,517,517	1,388,728	128,789
Fiscal . . . . .	468,733	473,033	448,165	24,868
Operations and maintenance . . . . .	1,207,127	1,333,102	1,166,109	166,993
Pupil transportation . . . . .	1,200,784	1,307,052	1,279,477	27,575
Central . . . . .	180,159	243,225	219,408	23,817
Operation of non-instructional services . . . . .	-	38,900	37,938	962
Extracurricular activities . . . . .	125,900	124,600	117,441	7,159
Facilities acquisition and construction . . . . .	1,336,938	877,408	78,642	798,766
Total expenditures . . . . .	<u>14,414,834</u>	<u>14,940,835</u>	<u>13,564,036</u>	<u>1,376,799</u>
Excess of revenues over (under) expenditures . . . . .	<u>(1,071,524)</u>	<u>(1,597,525)</u>	<u>(123,155)</u>	<u>1,474,370</u>
<b>Other financing sources (uses):</b>				
Reimbursement of insurance claim . . . . .	61,160	61,160	61,607	447
Transfers in . . . . .	505,970	505,970	509,670	3,700
Transfers (out) . . . . .	(478,234)	(539,841)	(539,841)	-
Advances in . . . . .	86,115	86,115	86,745	630
Advances (out) . . . . .	-	(21,835)	(21,835)	-
Refund of prior year expenditure . . . . .	3,540	3,540	3,566	26
Total other financing sources (uses) . . . . .	<u>178,551</u>	<u>95,109</u>	<u>99,912</u>	<u>4,803</u>
Net change in fund balance . . . . .	(892,973)	(1,502,416)	(23,243)	1,479,173
<b>Fund balance at beginning of year . . . . .</b>	3,973,208	3,973,208	3,973,208	-
<b>Prior year encumbrances appropriated . . . . .</b>	639,951	639,951	639,951	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 3,720,186</u>	<u>\$ 3,110,743</u>	<u>\$ 4,589,916</u>	<u>\$ 1,479,173</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Current assets:	
Cash with fiscal agent . . . . .	\$ 1,724,478
Total assets . . . . .	1,724,478
<b>Liabilities:</b>	
Claims payable . . . . .	310,960
Total liabilities . . . . .	310,960
<b>Net assets:</b>	
Unrestricted. . . . .	1,413,518
Total net assets . . . . .	\$ 1,413,518

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 2,694,715
Total operating revenues . . . . .	<u>2,694,715</u>
<b>Operating expenses:</b>	
Fringe benefits . . . . .	176,567
Claims. . . . .	<u>2,383,813</u>
Total operating expenses . . . . .	<u>2,560,380</u>
Operating income . . . . .	<u>134,335</u>
<b>Nonoperating revenues:</b>	
Interest revenue. . . . .	<u>15,093</u>
Total nonoperating revenues . . . . .	<u>15,093</u>
Change in net assets. . . . .	149,428
<b>Net assets at beginning of year . . . . .</b>	<u>1,264,090</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ 1,413,518</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 2,694,715
Cash payments for fringe benefits. . . . .	(176,567)
Cash payments for claims. . . . .	<u>(2,404,580)</u>
Net cash provided by operating activities . . . . .	<u>113,568</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>15,093</u>
Net cash provided by investing activities . . . . .	<u>15,093</u>
Net increase in cash and cash equivalents . . . . .	128,661
<b>Cash and cash equivalents at beginning of year. . .</b>	<u>1,595,817</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 1,724,478</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 134,335
Changes in assets and liabilities: Decrease in claims payable . . . . .	<u>(20,767)</u>
Net cash provided by operating activities . . . . .	<u><u>\$ 113,568</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2005

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 89,864
Receivables:	
Accounts . . . . .	98
Total assets . . . . .	\$ 89,962
<b>Liabilities:</b>	
Accounts payable . . . . .	\$ 12,604
Due to students . . . . .	77,358
Total liabilities . . . . .	\$ 89,962

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District was established in 1971 through the consolidation of existing land areas and school districts. The District serves an area approximately 386 square miles. It is located primarily in Harrison County, however small portions of the District are located in Carroll County, Tuscarawas County, Belmont County, and Jefferson County. The District is the 270<sup>th</sup> largest in the State of Ohio (among 614 public school districts) in terms of enrollment. It is staffed by 109 non-certificated employees, 163 certificated employees, and 11 administrators who provide services to 2,018 students and other community members. The District currently operates 8 instructional buildings, 1 administrative building, and 1 garage.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*JOINTLY GOVERNED ORGANIZATIONS*

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

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

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

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

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

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

Belmont Harrison Joint Vocational School

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

*INSURANCE PURCHASING POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

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

*PROPRIETARY FUND*

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

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

*FIDUCIARY FUND*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

**D. Basis of Accounting**

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

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

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

During fiscal year 2005, investments were limited to federal agency securities, certificates of deposit, investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$119,858, which includes \$18,704 assigned from other funds.

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

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

**G. Inventory**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**H. Capital Assets**

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

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

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

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

**I. Interfund Balances**

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

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, any employee with a continuing contract is considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Fund Balance Reserves**

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

**M. Operating Revenues and Expenses**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**N. Net Assets**

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

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

**O. Prepayments**

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

**P. Estimates**

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

**Q. Restricted Assets**

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

**R. Interfund Activity**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2005, the District incurred a transaction that would be classified as an extraordinary item. The District received \$65,792 in of reimbursement of insurance claims related to flood damage that occurred during the year.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 4,021,187	\$ 1,058,241	\$ 5,079,428
GASB Technical Bulletin No. 2004-2	<u>(70,697)</u>	<u>(27,164)</u>	<u>(97,861)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 3,950,490</u>	<u>\$ 1,031,077</u>	<u>\$ 4,981,567</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
District Managed Activities	\$ 16,628
Management Information Systems	26
Disadvantaged Pupil Impact Aid	36,619
Preschool	2,752
Improving Teacher Quality	4,443

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**A. Cash with Fiscal Agent**

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2005 was \$1,724,478.

**B. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$759,815. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$908,212 of the District's bank balance of 1,181,486 was exposed to custodial risk as discussed below, while \$273,274 was covered by Federal Deposit Insurance Corporation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**C. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
STAR Ohio	\$ 4,106,839	\$ 4,106,839	\$ -	\$ -	\$ -
Freddie Mac	348,133	149,769	198,364	-	-
Fannie Mae	247,033	-	247,033	-	-
FHLB	<u>1,096,671</u>	<u>648,625</u>	<u>298,562</u>	<u>-</u>	<u>149,484</u>
	<u>\$ 5,798,676</u>	<u>\$ 4,905,233</u>	<u>\$ 743,959</u>	<u>\$ -</u>	<u>\$ 149,484</u>

The weighted average maturity of investments is .18 years.

*Interest Rate Risk:* To the extent possible, the District will attempt to match its investment with anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to maturity. Unless matched to a specific obligation or debt of the District, the District will not directly in securities maturing more than two years from the date of settlement.

*Credit Risk:* The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 4,106,839	70.83
Freddie Mac	348,133	6.00
Fannie Mae	247,033	4.26
FHLB	<u>1,096,671</u>	<u>18.91</u>
	<u>\$ 5,798,676</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>		
Carrying amount of deposits	\$	759,815
Investments		5,798,676
Cash with fiscal agent		<u>1,724,478</u>
Total		<u>\$ 8,282,969</u>
 <u>Cash and investments per Statement of Net Assets</u>		
Governmental activities	\$	8,193,105
Agency fund		<u>89,864</u>
Total		<u>\$ 8,282,969</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 21,835

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

- B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

<u>Transfers to Nonmajor Special Revenue funds from:</u>		
General Fund		\$ 193,558
 <u>Transfers to General Fund from:</u>		
Nonmajor Special Revenue fund		15,114

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Harrison, Carroll, Tuscarawas, Belmont and Jefferson Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$560,741 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$396,617 in the general fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 145,435,890	81.75	\$ 147,508,500	82.31
Public Utility Personal	15,872,280	8.92	16,506,890	9.21
Tangible Personal Property	<u>16,588,026</u>	<u>9.33</u>	<u>15,195,970</u>	<u>8.48</u>
Total	<u>\$ 177,896,196</u>	<u>100.00</u>	<u>\$ 179,211,360</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 37.75		\$ 37.75	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Taxes	\$ 4,800,589
Accounts	5,930
Intergovernmental	278,934
Accrued interest	<u>21,444</u>
Total	<u>\$ 5,106,897</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
Total capital assets, not being depreciated	<u>10,561</u>	<u>-</u>	<u>-</u>	<u>10,561</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	8,333,205	-	-	8,333,205
Furniture and equipment	1,306,729	34,485	-	1,341,214
Vehicles	1,289,569	117,792	-	1,407,361
Infrastructure	<u>23,230</u>	<u>-</u>	<u>-</u>	<u>23,230</u>
Total capital assets, being depreciated	<u>10,952,733</u>	<u>152,277</u>	<u>-</u>	<u>11,105,010</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(5,693,669)	(110,832)	-	(5,804,501)
Furniture and equipment	(887,430)	(63,428)	-	(950,858)
Vehicles	(771,487)	(115,261)	-	(886,748)
Infrastructure	<u>(13,319)</u>	<u>(310)</u>	<u>-</u>	<u>(13,629)</u>
Total accumulated depreciation	<u>(7,365,905)</u>	<u>(289,831)</u>	<u>-</u>	<u>(7,655,736)</u>
Governmental activities capital assets, net	<u>\$ 3,597,389</u>	<u>\$ (137,554)</u>	<u>\$ -</u>	<u>\$ 3,459,835</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 112,367
Special	21,857
Vocational	3,424

Support Services:

Pupil	1,161
Instructional staff	2,273
Administration	14,274
Fiscal	643
Operations and maintenance	2,911
Pupil transportation	119,569
Central	2,673
Extracurricular activities	2,173
Food service operations	<u>6,506</u>
Total depreciation expense	<u>\$ 289,831</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

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

Capital assets consisting of equipment have been capitalized in the amount of \$336,545. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in fiscal year 2005 totaled \$46,778 and \$10,377 respectively, in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	52,674
2007	52,674
2008	50,994
2009	42,594
2010	<u>14,198</u>
Total minimum lease payments	213,134
Less amount representing interest	<u>(19,116)</u>
Total	<u>\$ 194,018</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
Capital lease obligation	\$ 240,796	\$ -	\$ (46,778)	\$ 194,018	\$ 44,548
Compensated absences	<u>1,237,238</u>	<u>191,527</u>	<u>(178,059)</u>	<u>1,250,706</u>	<u>96,736</u>
Total long-term obligations, governmental activities	<u>\$ 1,478,034</u>	<u>\$ 191,527</u>	<u>\$ (224,837)</u>	<u>\$ 1,444,724</u>	<u>\$ 141,284</u>

**B. Legal Debt Margin**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$16,129,022 and an unvoted debt margin of \$179,211.

**NOTE 11 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

<u>Employee Status</u>	<u>Maximum Allowable Sick Leave Balance (Days)</u>	<u>Paid at 1/4 of Unused Sick Leave Balance</u>	<u>Paid at 1/8 of Unused Sick Leave Balance</u>	<u>Total Allowable Maximum Severance (Days)</u>
Classified	276	First 133 Days	Any Balance Over 133 Days	52
Office Staff	304	First 142 Days	Any Balance Over 142 Days	56
Administrative	321	First 146 Days	Any Balance Over 146 Days	59
Certified	315	First 144 Days	Any Balance Over 144 Days	58

**B. Life Insurance**

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

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 12 - RISK MANAGEMENT - (Continued)**

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

Coverage provided by Indiana Insurance is as follows:

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

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

**B. Workers' Compensation**

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

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

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

Medical/surgical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 49 school districts within the OME-RESA consortium, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf. The claims liability of \$310,960 reported in the internal service fund at June 30, 2005, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 12 - RISK MANAGEMENT - (Continued)**

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 331,727	\$ 2,383,813	\$ (2,404,580)	\$ 310,960
2004	509,666	1,382,542	(1,560,481)	331,727

**NOTE 13 - DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$252,283, \$233,833 and \$218,926, respectively; 48.17% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$130,740 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)**

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

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

Plan members are required to contribute 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. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,006,424, \$959,625 and \$926,792, respectively; 83.51% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$165,944 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$6,678 made by the District and \$7,354 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$71,877 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation of basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll, a decrease of 1.48% from fiscal year 2004. 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 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$88,787 during the 2005 fiscal year.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

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

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (23,243)
Net adjustment for revenue accruals	146,790
Net adjustment for expenditure accruals	(82,338)
Net adjustment for other sources/uses	(216,749)
Adjustment for encumbrances	<u>390,868</u>
GAAP basis	<u>\$ 215,328</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is not a party to legal proceedings at June 30, 2005.

**C. State School Funding Decision**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 16 – CONTINGENCIES – (Continued)**

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.

**NOTE 17 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2004	\$ 402,182	\$ 758,405	\$ 73,694
Current year set-aside requirement	239,117	239,117	-
Qualifying disbursements	<u>(220,941)</u>	<u>(80,599)</u>	<u>-</u>
Total	<u>\$ 420,358</u>	<u>\$ 916,923</u>	<u>\$ 73,694</u>
Cash balance carried forward to FY 2006	<u>\$ 420,358</u>	<u>\$ 916,923</u>	<u>\$ 73,694</u>

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for BWC refunds	\$ 73,694
Amount restricted for textbooks	420,358
Amount restricted for capital acquisition	<u>916,923</u>
Total restricted assets	<u>\$ 1,410,975</u>

HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	03-PU-05	10.550		\$16,478		\$16,478
National School Lunch Program	04-PU-05	10.555	\$276,527		\$276,527	
National School Breakfast Program	05-PU-05	10.553	119,148		119,148	
Total U.S. Department of Agriculture - Nutrition Cluster			395,675	16,478	395,675	16,478
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States						
Title VI-B Flow Through	6B-SF-04	84.027	69,822		53,440	
	6B-SF-05		466,778		443,519	
Total Title VI-B			536,600		496,959	
Special Education - Preschool Grant	PG-S1-04	84.173	1,734		1,468	
	PG-S1-05		28,389		25,837	
Total Special Education - Preschool Grant			30,123		27,305	
Total Special Education Cluster			566,723		524,264	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-04	84.010	56,286		58,614	
	C1-S1-05		526,598		514,729	
Total Title I			582,884		573,343	
Inovative Education Strategies	C2-S1-04	84.298	328		1,286	
	C2-S1-05		7,315		5,977	
Total Inovative Education Strategies			7,643		7,263	
Drug-Free Schools Grant	DR-S1-04	84.186	915		250	
	DR-S1-05		16,490		12,904	
Total Drug Free Schools Grant			17,405		13,154	
Title II A - Improving Teacher Quality	TR-S1-04	84.367	22,892		23,195	
	TR-S1-05		163,606		154,640	
Total Title II A			186,498		177,835	
Title II D - Education Technology State Grants	TJ-S1-04	84.318	2,256		4,114	
	TJ-S1-05		16,078		12,788	
Total Title II D			18,334		16,902	
Total Department of Education			1,379,487		1,312,761	
<b>U.S. Department of Health and Human Services</b>						
<i>Passed Through Ohio Department of MRDD:</i>						
Community Alternative Funding System (CAFS)	FY 05	93.778	43,554		22,418	
Department of Health and Human Services			43,554		22,418	
<b>Department of Homeland Security</b>						
<i>Passed Through Ohio Emergency Management Agency:</i>						
FEMA Grant	1556-DR-067-121F2	97.036	15,114		15,114	
Total Department of Homeland Security			15,114		15,114	
Total Federal Financial Assistance			<u>\$1,833,830</u>	<u>\$16,478</u>	<u>\$1,745,968</u>	<u>\$16,478</u>

The notes to the Federal Awards Expenditures Schedule are an integral part of this schedule.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURE SCHEDULE  
JUNE 30, 2005**

**A. SIGNIFICANT ACCOUNTING POLICIES**

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

**B. FOOD DISTRIBUTION**

Non monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Harrison Hills City School District, Harrison County, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 15, 2006, wherein we noted that the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 15, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 15, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

**Betty Montgomery**  
Auditor of State

March 15, 2006



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Harrison Hills City School District, Harrison County, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A 133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Harrison Hills City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

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

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, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 15, 2006.

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

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

**Betty Montgomery**  
Auditor of State

March 15, 2006

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY  
JUNE 30, 2005**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 ' .505**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs= Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under ' .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA# 10.550,10.555,10.553, 84.367
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None	
------	--

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None	
------	--





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 4, 2006**