



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SINGLE AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY

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## REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Hillsboro City School District, Highland County, Ohio (the District), as of and for the fiscal year ended June 30, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2000, and the results of its operations and the cash flows of its proprietary fund types for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2000, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

**Jim Petro**  
Auditor of State

December 20, 2000

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Hillsboro City School District  
Highland County

Combined Balance Sheet  
All Fund Types and Account Groups  
June 30, 2000

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Equity in Pooled Cash and Investments	\$82,159	\$577,316	\$0	\$57,186
Restricted Equity in Pooled Cash and Investments	217,825	0	0	0
Receivables:				
Taxes	4,629,418	0	0	0
Intergovernmental	7,098	0	0	0
Accounts	24,630	0	0	0
Accrued Interest	4,732	0	0	0
Interfund Receivable	185,692	0	0	5,000
Inventory	0	0	0	0
Fixed Assets ( Net, where applicable, of				
Accumulated Depreciation)	0	0	0	0
Other Debits:				
Amount to be Provided for Retirement of General				
Long-Term Obligations	0	0	0	0
<b>Total Assets &amp; Other Debits</b>	<b>\$5,151,554</b>	<b>\$577,316</b>	<b>\$0</b>	<b>\$62,186</b>
Liabilities, Fund Equity & Other Credits:				
Liabilities:				
Accounts Payable	\$82,062	\$15,259	\$0	\$184
Accrued Wages & Benefits	1,192,981	75,702	0	0
Compensated Absences Payable	77,432	3,603	0	0
Interfund Payable	0	3,000	0	29,212
Deferred Revenue	3,873,599	0	0	0
Due to Students	0	0	0	0
Claims Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
<b>Total Liabilities</b>	<b>5,226,074</b>	<b>97,564</b>	<b>0</b>	<b>29,396</b>
Fund Equity & Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	101,409	45,381	0	21,749
Reserved for Property Tax Advances	83,744	0	0	0
Reserved for Set-Asides	217,825	0	0	0
Unreserved & Undesignated	(477,498)	434,371	0	11,041
<b>Total Fund Equity (Deficit) &amp; Other Credits</b>	<b>(74,520)</b>	<b>479,752</b>	<b>0</b>	<b>32,790</b>
<b>Total Liabilities, Fund Equity &amp; Other Credits</b>	<b>\$5,151,554</b>	<b>\$577,316</b>	<b>\$0</b>	<b>\$62,186</b>



Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$62,069	\$115,462	\$88,400	\$0	\$0	\$982,592
0	0	0	0	0	217,825
0	0	0	0	0	4,629,418
488	0	0	0	0	7,586
0	0	0	0	0	24,630
0	0	0	0	0	4,732
0	0	0	0	0	190,692
5,874	0	0	0	0	5,874
81,763	0	0	12,601,434	0	12,683,197
0	0	0	0	1,014,122	1,014,122
<u>\$150,194</u>	<u>\$115,462</u>	<u>\$88,400</u>	<u>\$12,601,434</u>	<u>\$1,014,122</u>	<u>\$19,760,668</u>
\$3,006	\$0	\$1,648	\$0	\$0	\$102,159
47,680	0	0	0	138,526	1,454,889
14,567	0	0	0	702,465	798,067
158,480	0	0	0	0	190,692
1,017	0	0	0	0	3,874,616
0	0	58,920	0	0	58,920
0	69,711	0	0	0	69,711
0	0	0	0	173,131	173,131
<u>224,750</u>	<u>69,711</u>	<u>60,568</u>	<u>0</u>	<u>1,014,122</u>	<u>6,722,185</u>
0	0	0	12,601,434	0	12,601,434
8,911	0	0	0	0	8,911
(83,467)	45,751	0	0	0	(37,716)
0	0	0	0	0	168,539
0	0	0	0	0	83,744
0	0	0	0	0	217,825
0	0	27,832	0	0	(4,254)
<u>(74,556)</u>	<u>45,751</u>	<u>27,832</u>	<u>12,601,434</u>	<u>0</u>	<u>13,038,483</u>
<u>\$150,194</u>	<u>\$115,462</u>	<u>\$88,400</u>	<u>\$12,601,434</u>	<u>\$1,014,122</u>	<u>\$19,760,668</u>

Hillsboro City School District  
Highland County

Combined Statement of Revenues, Expenditures  
And Changes in Fund Balance  
All Governmental Fund Types and Expendable Trust Funds  
For the Fiscal Year Ended June 30, 2000

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Taxes	\$5,759,735	\$0	\$0	\$0	\$0	\$5,759,735
Intergovernmental	8,485,694	1,506,760	0	225,108	0	10,217,562
Investment	92,120	0	0	0	1,045	93,165
Tuition & Fees	108,363	0	0	0	0	108,363
Extracurricular Activities	0	252,319	0	0	0	252,319
Miscellaneous	59,346	108,825	0	0	265	168,436
Total Revenues	14,505,258	1,867,904	0	225,108	1,310	16,599,580
Expenditures:						
Current:						
Instruction:						
Regular	6,470,635	574,069	0	125,595	0	7,170,299
Special	872,403	527,289	0	0	0	1,399,692
Vocational	455,954	0	0	0	0	455,954
Other	34,480	0	0	0	0	34,480
Support Services:						
Pupils	646,689	101,287	0	0	0	747,976
Instructional Staff	928,572	243,323	0	39,956	0	1,211,851
Board of Education	17,300	0	0	0	0	17,300
Administration	1,611,624	15,026	0	20,992	0	1,647,642
Fiscal	310,953	0	0	0	0	310,953
Business	0	0	0	0	363	363
Operation & Maintenance of Plant	1,492,672	19,442	0	427,268	0	1,939,382
Pupil Transportation	1,037,995	1,703	0	0	0	1,039,698
Central	100	31,812	0	36,901	0	68,813
Operation of Non-Instructional Services	130,130	31,429	0	0	5,500	167,059
Extracurricular Activities	215,978	173,159	0	0	0	389,137
Capital Outlay	89,137	6,110	0	0	0	95,247
Debt Service:						
Principal Retirement	160,000	0	16,869	0	0	176,869
Interest & Fiscal Charges	5,142	0	4,386	0	0	9,528
Total Expenditures	14,479,764	1,724,649	21,255	650,712	5,863	16,882,243
Excess of Revenues Over (Under) Expenditures	25,494	143,255	(21,255)	(425,604)	(4,553)	(282,663)
Other Financing Sources (Uses):						
Proceeds of Bonds	0	0	0	190,000	0	190,000
Proceeds from Sale of Fixed Assets	10,749	0	0	0	0	10,749
Operating Transfers In	0	0	21,255	0	0	21,255
Operating Transfers Out	(21,255)	0	0	0	0	(21,255)
Total Other Financing Sources (Uses)	(10,506)	0	21,255	190,000	0	200,749
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	14,988	143,255	0	(235,604)	(4,553)	(81,914)
Fund Balance, Beginning of Year (Restated - Note 17)	(89,508)	336,497	0	268,394	32,385	547,768
Fund Balance, End of Year	(\$74,520)	\$479,752	\$0	\$32,790	\$27,832	\$465,854

See accompanying notes.

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Hillsboro City School District  
Highland County

Combined Statement of Revenues, Expenditures  
And Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2000

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$5,820,626	\$5,820,626	\$0	\$0	\$0	\$0
Intergovernmental	8,478,596	8,478,596	0	1,472,507	1,506,760	34,253
Investment	87,285	90,265	2,980	0	0	0
Tuition & Fees	101,103	102,039	936	0	0	0
Extracurricular Activities	0	0	0	251,629	252,319	690
Miscellaneous	232,228	237,171	4,943	108,485	108,825	340
<b>Total Revenues</b>	<b>14,719,838</b>	<b>14,728,697</b>	<b>8,859</b>	<b>1,832,621</b>	<b>1,867,904</b>	<b>35,283</b>
Expenditures:						
Current:						
Instruction:						
Regular	6,788,732	6,719,050	69,682	688,386	596,631	91,755
Special	916,601	906,822	9,779	647,395	548,017	99,378
Vocational	486,681	478,831	7,850	0	0	0
Other	35,157	34,480	677	0	0	0
Support Services:						
Pupils	684,401	679,355	5,046	104,882	102,227	2,655
Instructional Staff	956,943	942,399	14,544	402,134	280,085	122,049
Board of Education	19,825	18,179	1,646	0	0	0
Administration	1,661,742	1,648,269	13,473	24,313	17,995	6,318
Fiscal	342,708	339,315	3,393	0	0	0
Operation & Maintenance of Plant	1,589,260	1,555,400	33,860	50,429	19,274	31,155
Pupil Transportation	1,088,465	1,069,074	19,391	6,703	1,703	5,000
Central	229	100	129	32,487	31,844	643
Operation of Non-Instructional Services	136,326	131,803	4,523	62,150	41,282	20,868
Extracurricular Activities	217,446	211,154	6,292	189,136	179,413	9,723
Capital Outlay	92,617	92,503	114	7,122	6,110	1,012
Debt Service:						
Principal Retirement	160,000	160,000	0	0	0	0
Interest & Fiscal Charges	5,142	5,142	0	0	0	0
<b>Total Expenditures</b>	<b>15,182,275</b>	<b>14,991,876</b>	<b>190,399</b>	<b>2,215,137</b>	<b>1,824,581</b>	<b>390,556</b>
Excess (Deficiency) of Revenues Over Under Expenditures	(462,437)	(263,179)	199,258	(382,516)	43,323	425,839
Other Financing Sources (Uses):						
Proceeds of Bonds	0	0	0	0	0	0
Proceeds from Sale of Fixed Assets	10,699	10,749	50	0	0	0
Operating Transfers In	0	0	0	21,031	21,031	0
Operating Transfers Out	(211,376)	(21,255)	190,121	(21,031)	(21,031)	0
Advances In	145,611	145,611	0	11,364	11,364	0
Advances Out	(190,303)	(190,303)	0	(11,364)	(11,364)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(245,369)</b>	<b>(55,198)</b>	<b>190,171</b>	<b>0</b>	<b>0</b>	<b>0</b>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(707,806)	(318,377)	389,429	(382,516)	43,323	425,839
Fund Balance, Beginning of Year (Includes Prior Year Encumbrances Appropriated)	434,885	434,885	0	473,358	473,358	0
<b>Fund Balance, End of Year</b>	<b>(\$272,921)</b>	<b>\$116,508</b>	<b>\$389,429</b>	<b>\$90,842</b>	<b>\$516,681</b>	<b>\$425,839</b>

See accompanying notes.

Debt Service			Capital Projects			Totals (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0	\$5,820,626	\$5,820,626	\$0
0	0	0	107,860	225,108	117,248	10,058,963	10,210,464	151,501
0	0	0	0	0	0	87,285	90,265	2,980
0	0	0	0	0	0	101,103	102,039	936
0	0	0	0	0	0	251,629	252,319	690
0	0	0	0	0	0	340,713	345,996	5,283
0	0	0	107,860	225,108	117,248	16,660,319	16,821,709	161,390
0	0	0	0	125,595	(125,595)	7,477,118	7,441,276	35,842
0	0	0	0	0	0	1,563,996	1,454,839	109,157
0	0	0	0	0	0	486,681	478,831	7,850
0	0	0	0	0	0	35,157	34,480	677
0	0	0	0	0	0	789,283	781,582	7,701
0	0	0	72,928	51,919	21,009	1,432,005	1,274,403	157,602
0	0	0	0	0	0	19,825	18,179	1,646
0	0	0	22,830	21,176	1,654	1,708,885	1,687,440	21,445
0	0	0	0	0	0	342,708	339,315	3,393
0	0	0	487,550	480,025	7,525	2,127,239	2,054,699	72,540
0	0	0	0	0	0	1,095,168	1,070,777	24,391
0	0	0	56,955	53,874	3,081	89,671	85,818	3,853
0	0	0	0	0	0	198,476	173,085	25,391
0	0	0	0	0	0	406,582	390,567	16,015
0	0	0	0	0	0	99,739	98,613	1,126
16,869	16,869	0	0	0	0	176,869	176,869	0
4,386	4,386	0	0	0	0	9,528	9,528	0
21,255	21,255	0	640,263	732,589	(92,326)	18,058,930	17,570,301	488,629
(21,255)	(21,255)	0	(532,403)	(507,481)	24,922	(1,398,611)	(748,592)	650,019
0	0	0	190,000	190,000	0	190,000	190,000	0
0	0	0	0	0	0	10,699	10,749	50
21,255	21,255	0	0	0	0	42,286	42,286	0
0	0	0	0	0	0	(232,407)	(42,286)	190,121
0	0	0	93,459	93,459	0	250,434	250,434	0
0	0	0	(64,247)	(64,247)	0	(265,914)	(265,914)	0
21,255	21,255	0	219,212	219,212	0	(4,902)	185,269	190,171
0	0	0	(313,191)	(288,269)	24,922	(1,403,513)	(563,323)	840,190
0	0	0	323,522	323,522	0	1,231,765	1,231,765	0
\$0	\$0	\$0	\$10,331	\$35,253	\$24,922	(\$171,748)	\$668,442	\$840,190

Hillsboro City School District  
Highland County

Combined Statement of Revenues, Expenses  
And Changes in Retained Earnings  
All Proprietary Fund Types  
For the Fiscal Year Ended June 30, 2000

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
Operating Revenues:			
Charges for Services	\$612,630	\$158,431	\$771,061
Tuition & Fees	12,141	0	12,141
Miscellaneous Revenue	0	10,850	10,850
Total Operating Revenues	<u>624,771</u>	<u>169,281</u>	<u>794,052</u>
Operating Expenses:			
Salaries	260,056	0	260,056
Fringe Benefits	129,362	54,470	183,832
Purchased Services	100,224	0	100,224
Materials & Supplies	359,600	0	359,600
Depreciation	6,192	0	6,192
Claims	0	189,365	189,365
Other Operating Expenses	2,323	0	2,323
Total Operating Expenses	<u>857,757</u>	<u>243,835</u>	<u>1,101,592</u>
Operating Income (Loss)	<u>(232,986)</u>	<u>(74,554)</u>	<u>(307,540)</u>
Non-Operating Revenues (Expenses):			
Loss on Disposal of Fixed Asset	(9,371)	0	(9,371)
Donated Commodities	38,444	0	38,444
Operating Grants - State & Local	14,563	0	14,563
Operating Grants - Federal	238,176	0	238,176
Total Non-Operating Revenues	<u>281,812</u>	<u>0</u>	<u>281,812</u>
Net Income	48,826	(74,554)	(25,728)
Retained Earnings, Beginning of Year	<u>(132,293)</u>	<u>120,305</u>	<u>(11,988)</u>
Retained Earnings, End of Year	<u><u>(\$83,467)</u></u>	<u><u>\$45,751</u></u>	<u><u>(\$37,716)</u></u>

See accompanying notes.

Hillsboro City School District  
Highland County

Combined Statement of Cash Flows  
All Proprietary Fund Types  
For the Fiscal Year Ended June 30, 2000

	Proprietary Fund Types		Totals (Memorandum only)
	Enterprise	Internal Service	
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Tuition & Fees	\$12,141	\$0	\$12,141
Cash Received from Charges for Services	612,630	169,281	781,911
Cash Payments for Personal Services	(398,181)	(54,740)	(452,921)
Cash Payments for Contract Services	(99,644)	(182,809)	(282,453)
Cash Payments for Supplies & Materials	(379,322)	0	(379,322)
Cash Payments for Other Expenses	(2,323)	0	(2,323)
Net Cash Provided (Used) by Operating Activities	<u>(254,699)</u>	<u>(68,268)</u>	<u>(322,967)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Cash Received from Other Funds	15,480	0	15,480
Cash Received from Operating Grants	252,251	0	252,251
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>267,731</u>	<u>0</u>	<u>267,731</u>
Net Increase (Decrease) in Cash and Cash Equivalents	13,032	(68,268)	(55,236)
Cash and Cash Equivalents at Beginning of Year	49,037	183,730	232,767
Cash and Cash Equivalents at End of Year	<u>\$62,069</u>	<u>\$115,462</u>	<u>\$177,531</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	(\$232,986)	(\$74,554)	(\$307,540)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>			
Depreciation	6,192	0	6,192
Donated Commodities Used	38,444	0	38,444
<b>Changes in Assets and Liabilities:</b>			
(Increase) Decrease in Materials & Supplies Inventory	1,531	0	1,531
Increase (Decrease) in Accounts Payable	(56,739)	6,286	(50,453)
Increase (Decrease) in Accrued Wages & Benefits	(10,129)	0	(10,129)
Increase (Decrease) in Compensated Absences Payable	1,366	0	1,366
Increase (Decrease) in Deferred Revenue	(2,378)	0	(2,378)
Net Cash Provided (Used) by Operating Activities	<u>(\$254,699)</u>	<u>(\$68,268)</u>	<u>(\$322,967)</u>

See accompanying notes.

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**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**NOTE 1 - DESCRIPTION OF THE DISTRICT**

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

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 113 non-certificated personnel and 186 certificated teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the District's ADM is 2,804. It currently operates four elementary buildings housing grades K-6, and one Middle School/Senior High building housing grades 7-12. The Administrative Office is located at 338 West Main Street, Hillsboro, Ohio.

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

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

**A. The Reporting Entity**

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

1. The District appointed a voting majority of the organization's governing body **AND** (a) was able to impose its will on that organization **OR** (b) there was a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.
- OR** 2. The organization was fiscally dependent upon the District.
- OR** 3. The nature of the relationship between the District and the organization was

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

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

such that exclusion from the financial reporting entity would render the financial statements misleading.

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

**B. Basis of Presentation - Fund Accounting**

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

**Governmental Funds**

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

General Fund

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

Special Revenue Fund

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

Capital Projects Fund

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

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

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

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

**Enterprise Funds**

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

**Internal Service Fund**

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

**Fiduciary Funds**

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

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

**General Fixed Assets Account Group**

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

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

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

General Long-Term Obligations Account Group

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

**C. Measurement Focus/Basis of Accounting**

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

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

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

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

**D. Budgetary Data**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

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

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

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

The District is required by the State Statute to adopt an annual appropriated budget for all governmental fund types. The specific timetable is as follows:

1. Prior to January 15 of the preceding fiscal year, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers comments. The expressed purpose of this budget document is to reflect the need for existing or increased tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Highland County Budget Commission for tax rate determination.
3. Prior to March 15, the Board of Education accepts by formal resolution, the tax rates as determined by the Highland County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for appropriation measure. On or about July 1, the Certificate is amended to include any encumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State Statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the Highland County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts.
8. Unencumbered appropriations lapse at the year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

**E. Encumbrances**

Encumbrance accounting is utilized by District funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For Governmental Fund Types encumbrances outstanding at fiscal yearend appear as a reserve of the fund balance on a GAAP Basis and for all funds as the equivalent of expenditures/expenses on a non-GAAP budgetary basis in order to demonstrate legal compliance.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

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

**F. Cash and Investments**

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

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

**G. Restricted Assets**

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

**H. Inventory (Materials and Supplies)**

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

**I. Fixed Assets and Depreciation**

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost), with a capitalization threshold of \$300, and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District does not possess any infrastructure.

Proprietary Funds

Property, plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

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

**I. Fixed Assets and Depreciation (continued)**

Proprietary Funds (continued)

<b>Building Improvements</b>	20-40 years
<b>Equipment</b>	3-15 years

**J. Intergovernmental Revenues**

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

**K. Compensated Absences**

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

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

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

	<u>Certificated</u>	<u>Administrators</u>	<u>Non-Certificated</u>
<b><u>Vacation:</u></b>			
How earned	Not Eligible	Per Board Policy	10-20 Days
Termination Entitlement	N/A	Per Board Policy	Per Board Policy
<b><u>Sick Leave:</u></b>			
How earned	1-1/4 days per mo. of employment (15 days per year)	1-1/4 days per mo. of employment (15 days per year)	1-1/4 days per mo. of employment (15 days per year)
Maximum Accumulation	245	245	245
Vested	As earned	As earned	As earned
Termination Entitlement	Per Contract	Per Board Policy	Per Board Policy



**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

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

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

**L. Interfund Transactions**

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

1. Routine transfers of resources from one fund to another fund through which resources to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another fund are treated as expenditures/expenses in the reimbursing fund and as a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans are reflected as an interfund payable/receivable, while long-term interfund loans (greater than one year in length) are recorded as advances to/from other funds.

**M. Long-Term Obligations**

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

**N. Estimates**

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

**O. Fund Equity**

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

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

available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, materials and supplies inventory, property taxes and budgetary set-asides required under Ohio law.

**P. Memorandum Only - Total Columns**

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

**Q. Proprietary Fund Accounting**

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

**R. Contributed Capital**

Contributed capital represents resources from other funds, other governments and private sources provided to the proprietary funds that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

Because the School District did not prepare financial statements in accordance with generally accepted accounting principles prior to fiscal year 1993, the exact amount of contributed capital cannot be determined. Consequently, only those amounts that have been specifically identified have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to proprietary funds have been classified as retained earnings.

**NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS**

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

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

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

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

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

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

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

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

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

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

7. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

District deposits at fiscal year end consisted of certificates of deposit, and checking accounts. At year-end the carrying amount of the District's deposits was \$1,200,417. The bank balance of deposits was \$1,614,878. Of that balance, \$289,828 was covered by federal depository insurance. The remaining bank balance was covered by collateral held by third-party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions. The remaining cash balance is defined by GASB statement No. 3 as uncollateralized, because the collateral held by the trustees is not in the District's name.

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

**NOTE 4 - PROPERTY TAXES**

Property taxes include amounts levied against real, public utility and tangible personal (business) property. The assessed values, by property classification, upon which taxes collected in 2000 were based, are as follows:

<b>Real Property - Commercial/Industrial</b>	\$32,110,190
<b>Real Property - Residential/Agricultural</b>	127,145,950
<b>Real Property - Public Utilities</b>	18,450
<b>Personal Property - General</b>	28,875,414
<b>Personal Property - Public Utilities</b>	11,759,170
	=====
<b>Total</b>	\$199,909,174
	=====

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

(Continued)

**NOTE 4 - PROPERTY TAXES (continued)**

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

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment was due by March 11. If paid semi-annually, the first payment (at least 1/2 of amount billed) was due March 11 with the remainder due on August 12.

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

**NOTE 5 - FIXED ASSETS**

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

	<b><u>Balance Beginning of Year Restated</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance End of Year</u></b>
<b>Land &amp; Land Improvements</b>	\$1,196,285	\$0	\$ 0	\$1,196,285
<b>Building and Building Improvements</b>	4,822,722	160,000	0	4,982,722
<b>Equipment</b>	5,776,455	688,428	42,455	6,422,428
<b>Total</b>	<u>\$11,795,462</u>	<u>\$848,428</u>	<u>\$42,455</u>	<u>\$12,601,435</u>

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**NOTE 5 - FIXED ASSETS (continued)**

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

<b>Equipment</b>	\$243,942
<b>Less Accumulated Depreciation</b>	(162,179)
<b>Net Fixed Assets</b>	<u>\$ 81,763</u>

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

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

	<b><u>Balance Beginning</u></b> <b><u>Beginning of Year</u></b>	<b><u>Increase</u></b>	<b><u>(Decrease)</u></b>	<b><u>Balance</u></b> <b><u>End of Year</u></b>
<b>Accrued Wages &amp; Benefits</b>	\$96,963	\$41,563	\$ 0	\$138,526
<b>Compensated Absences</b>	565,783	136,682	0	702,465
<b>Capital Lease Payable</b>	160,000	0	(160,000)	0
<b>General Obligation Bonds</b>	0	190,000	(16,869)	173,131
<b>Totals</b>	<u>\$ 822,746</u>	<u>\$368,245</u>	<u>\$ (176,869)</u>	<u>\$1,014,122</u>

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

The following is a description of the District's General Obligation Bonds as of the year end:

<u>Purpose</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Balance</u> <u>6/30/99</u>	<u>Issued</u> <u>2000</u>	<u>Retired</u> <u>2000</u>	<u>Balance</u> <u>6/30/00</u>
Energy Conservation	5.2	9/21/99	9/21/04	\$ 0	\$190,000	\$16,869	\$173,131

**HILLSBORO CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

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

The following is a summary of the District's future annual debt service requirements to maturity:

<b>Year Ending</b>			
<b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2001	\$ 35,050	\$ 8,554	\$ 43,604
2002	36,923	6,707	43,630
2003	38,895	4,762	43,657
2004	40,966	2,712	43,678
2005	21,297	554	21,851
	-----	-----	-----
<b>Total</b>	<b>\$173,131</b>	<b>\$23,289</b>	<b>\$196,420</b>
	=====	=====	=====

**NOTE 7 - INTERFUND ACTIVITY**

As of June 30, 2000, receivables and payables that resulted from various interfund transactions were as follows:

<b><u>Fund Type/Fund</u></b>	<b><u>Receivable</u></b>	<b><u>Payable</u></b>
General Fund	\$185,692	\$ 0
Capital Projects Fund	5,000	29,212
Special Revenue Fund		3,000
Enterprise Funds	0	158,480
	-----	-----
Total All Funds	\$190,692	\$190,692
	=====	=====

**NOTE 8 - SEGMENT INFORMATION**

*Enterprise Funds*

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

(Continued)

**NOTE 8 - SEGMENT INFORMATION (continued)**

	<u>Food Services</u>	<u>Uniform School Supply</u>	<u>Total</u>
<b>Operating Revenues</b>	\$ 612,630	\$12,141	\$624,771
<b>Operating Expenses Before Depreciation</b>	836,033	15,532	851,565
<b>Depreciation</b>	6,192	- 0 -	6,192
<b>Operating Income (Loss)</b>	(229,595)	(3,391)	(232,986)
<b>Operating Grants</b>	252,739	- 0 -	252,739
<b>Donated Commodities</b>	38,444	- 0 -	38,444
<b>Net Income (Loss)</b>	52,217	(3,391)	48,826
<b>Capital Contributions</b>	8,911	- 0 -	8,911
<b>Property, Plant &amp; Equipment Additions</b>	8,911	- 0 -	8,911
<b>Property, Plant &amp; Equipment Deletions (net of accum. deprec.)</b>	9,371	- 0 -	9,371
<b>Net Working Capital</b>	(156,319)	27	(156,292)
<b>Total Assets</b>	150,102	92	150,194
<b>Total Liabilities</b>	224,685	65	224,750
<b>Total Equity</b>	(74,583)	27	(74,556)



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**NOTE 9 - RISK MANAGEMENT**

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

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

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$22,543,645. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The District pays all appointed officials' bonds by statute.

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

Dental insurance is offered to employees through a self-insurance internal service fund. The claims liability of \$69,711 reported in the internal service fund at fiscal year end is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the fiscal year follows:

	<b><u>Balance at Beginning of Year</u></b>	<b><u>Current Year Claims</u></b>	<b><u>Claims Payments</u></b>	<b><u>Balance at End of Year</u></b>
FY 2000	\$ 63,425	\$ 189,095	\$ 182,809	\$ 69,711

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

**NOTE 10 - EMPLOYEE RETIREMENT SYSTEM**

*SCHOOL EMPLOYEES RETIREMENT SYSTEM*

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

Plan members are required to contribute 9% of their annual covered salary and the Hillsboro City School District is required to contribute 14%. The contribution rates are not determined actuarially, but are established by SERS' Retirement board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's contributions to SERS for the years ending June 30, 2000, 1999 and 1998 were \$341,454, \$312,270, and \$274,650, respectively. \$175,998 representing the unpaid contribution for fiscal year 2000, is recorded as a liability within the respective funds and the general long-term obligations account group.

*STATE TEACHERS RETIREMENT SYSTEM*

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

Plan members are required to contribute 9.3% of their annual covered salary and the Hillsboro City School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not exceed statutory maximum rates of 10% for members and 14% for employers. The District's contributions to STRS for the years ending June 30, 2000, 1999 and 1998 were \$1,029,468, \$978,228, and \$919,404, respectively, equal to the required contributions for each year. \$176,876 represents the unpaid contribution for fiscal year 2000, and is recorded as a liability within the respective funds.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

**NOTE 10 - EMPLOYEE RETIREMENT SYSTEM (continued)**

*POST-EMPLOYMENT BENEFITS*

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board allocated employer contributions equal to 2 percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1999, this allocation was increased to 8 percent.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,783 million at June 30, 1999. For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefit recipients.

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

For fiscal year 2000, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1999. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2000, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care at June 30, 2000, were \$126,380,984 and the target level was \$189.9 million. At June 30, 1999 (the latest information available), SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 51,000 participants currently receiving health care benefits.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**NOTE 11 - BUDGETARY BASIS OF ACCOUNTING**

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

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

<u>Governmental Fund Types</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Fund</u>
<b>GAAP Basis</b>	\$ 14,988	\$ 143,255	\$ (235,604)
<b>Net Adjustment for Revenue Accruals</b>	369,050	32,395	93,459
<b>Net Adjustment for Expenditure Accruals</b>	(518,944)	(71,687)	(124,191)
<b>Net Adjustment for Encumbrances</b>	(183,471)	(60,640)	(21,933)
<b>Budgetary Basis</b>	<u><u>\$ (318,377)</u></u>	<u><u>\$ 43,323</u></u>	<u><u>\$ (288,269)</u></u>

**NOTE 12 - ACCOUNTABILITY & COMPLIANCE**

The General Fund had a deficit fund balance of \$74,520 at June 30, 2000. This deficit is the result of the application of generally accepted accounting principles. The Enterprise Fund had a deficit retained earnings balance of \$83,467. This deficit is expected to be provided for through future revenues.

*Legal Compliance* – Contrary to Section 5705.41(B), Ohio Revised Code, the SchoolNet FY 2000 Fund/Special Cost Center had expenditures in excess of appropriations. Total expenditures were \$125,594.94, while no legal appropriation for this money was adopted. This was a memorandum entry receipt and expenditure posted as a result of disbursements from Ohio SchoolNet directly to vendors on the District’s behalf. Additionally, expenditures exceeded appropriations at the lgal level of control throughout the year in various funds.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

**NOTE 12 - ACCOUNTABILITY & COMPLIANCE (continued)**

Contrary to Section 5705.38, Ohio Revised Code, a permanent appropriation resolution was not passed by the required date of October 1. A permanent appropriation measure was not adopted until June 28, 2000.

Contrary to Section 5705.40, Ohio Revised Code, appropriations in the District's accounting system were changed throughout the year without the Board's approval.

Contrary to Section 5705.29(H), Ohio Revised Code, and Section 3301-92-03(D), Ohio Administrative Code, the District appropriated and encumbered from the Budget Reserve without a Board resolution by at least a 2/3 vote of its members, without filing an acceptable schedule to replenish the set-aside balance, and without certifying that the deficit was caused by one of the reasons identified in the House Bill 412 Revised Rules.

**NOTE 13 - CONTINGENT LIABILITIES**

*Grants*

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. Management is unable to estimate possible claims resulting from such audits until the audits have been completed. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District.

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS**

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

**(Continued)**

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS (continued)**

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

**NOTE 15 - SCHOOL FUNDING DECISION/SUBSEQUENT EVENT**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 2000, the District received \$ 8,117,103 of school foundation support for its general fund, and \$8,259,765 in total (all funds) support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, " the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision. However, it found seven "...major areas warrant further attention, study and development by the General Assembly..." including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**NOTE 15 - SCHOOL FUNDING DECISION/SUBSEQUENT EVENT (continued)**

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30,2000, the reserve activity (cash basis) was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve			
Balance as of June 30, 1999	\$ 0	\$0	\$182,549
Current Year			
Set-Aside Requirement	333,685	333,685	111,228
Current Year Offsets	0	(190,000)	(75,952)
Qualifying Disbursements	(419,152)	(438,956)	0
Set-aside Balance Carried Forward to Future Fiscal Yrs	(85,467)	(\$190,000)	\$217,825
Set-aside Reserve Balance As of June 30, 2000	\$ 0	\$ 0	\$217,825

Although the School District had qualifying disbursements during the year that reduced the capital acquisition and textbook set-aside amounts to below zero, only the amount for the textbook set-aside may be used to reduce the set-aside requirements of future years. Offsets in the capital maintenance reserve are proceeds from energy conservation bonds and only these proceeds may be carried forward to reduce the set-aside requirement of future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$217,825.

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

**NOTE 17 - PRIOR PERIOD ADJUSTMENTS**

The District made adjustments to certain July 1, 1999 balances as previously reported. An adjustment was made to the General Fund beginning balance to account for income tax receivable as of 6/30/99 which should have been recognized as revenue in fiscal year 1999. An adjustment was made to the General Fixed Assets Account Group beginning balance to correct the carrying amount of equipment. The effects of these adjustments are as follows:

<b><u>Fund/ Account Group</u></b>	<b><u>Previously Stated Balance at 6/30/99</u></b>	<b><u>Adjustments</u></b>	<b><u>Restated Balance at 7/1/99</u></b>
General Fund	(\$758,057)	\$668,549	(\$89,508)
General Fixed Assets Account Group	11,781,329	14,133	11,795,462



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$36,067	\$0	\$38,444
School Breakfast Program	05-PU-99	10.553	3,908	0	3,908	0
	05-PU-00	10.553	37,280	0	37,280	0
			41,188	0	41,188	0
National School Lunch Program	03-PU-99	10.555	5,052	0	5,052	0
	03-PU-00	10.555	36,992	0	36,992	0
	04-PU-99	10.555	16,506	0	16,506	0
	04-PU-00	10.555	130,811	0	130,811	0
			189,361	0	189,361	0
Special Milk Program for Children	02-PU-99	10.556	589	0	589	0
	02-PU-00	10.556	4,198	0	4,198	0
			4,787	0	4,787	0
Summer Food Service Program for Children	24-AD-99	10.559	49	0	6,180	0
	23-ML-00	10.559	2,791	0	0	0
			2,840	0	6,180	0
			238,176	36,067	241,516	38,444
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Title XIX	N/A	93.778	4,400	0	4,400	0
Total U.S. Department of Health and Human Services			4,400	0	4,400	0
<b>U.S. DEPARTMENT OF LABOR</b>						
<i>Passed Through Ohio Department of Education:</i>						
Employment Services and Job Training - Pilot Program	WK-BE-98	17.249	0	0	21,826	0
	WK-BE-99	17.249	5,000	0	5,000	0
			5,000	0	26,826	0
<i>Passed Through Region 7 School-to-Work Jackson City School District - Fiscal Agent:</i>						
Employment Services and Job Training - Pilot Program	N/A	17.249	13,000	0	20,897	0
<i>Passed Through Great Oaks Institute of Technology:</i>						
Employment Services and Job Training - Pilot Program	N/A	17.249	0	0	954	0
Total U.S. Department of Labor			18,000	0	48,677	0

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000  
(Continued)**

<b>FEDERAL GRANTOR</b> Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Great Oaks Institute of Technology:</i>						
Vocational Education - Basic Grants to States	N/A	84.048	\$7,563	\$0	\$8,044	\$0
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States	6B-SF-99	84.027	28,257	0	29,772	0
	6B-SF-00	84.027	99,348	0	61,245	0
			<u>127,605</u>	<u>0</u>	<u>91,017</u>	<u>0</u>
Title I Grants to Local Educational Agencies	C1-S1-99	84.010	129,381	0	165,773	0
	C1-S1-00	84.010	474,872	0	411,895	0
	C1-SD-00	84.010	9,790	0	3,292	0
			<u>614,043</u>	<u>0</u>	<u>580,960</u>	<u>0</u>
Special Education - Preschool Grants	PG-S1-99	84.173	0	0	4,056	0
	PG-S1-00	84.173	4,641	0	0	0
			<u>4,641</u>	<u>0</u>	<u>4,056</u>	<u>0</u>
Innovative Educational Program Strategies	C2-S1-99	84.298	1,824	0	1,866	0
Safe and Drug-Free Schools and Communities - State Grants	DR-S1-98	84.186	0	0	680	0
	DR-S1-99	84.186	0	0	11,398	0
	DR-S1-00	84.186	11,962	0	11,962	0
			<u>11,962</u>	<u>0</u>	<u>24,040</u>	<u>0</u>
Eisenhower Professional Development - State Grants	MS-S1-99	84.281	0	0	4,130	0
	MS-S1-00	84.281	14,325	0	2,030	0
			<u>14,325</u>	<u>0</u>	<u>6,160</u>	<u>0</u>
Technology Literacy Challenge Grant Funds	TF-31-99	84.318	0	0	150,000	0
	TF-32-00	84.318	100,000	0	100,000	0
	TF-33-00	84.318	62,500	0	62,500	0
	TF-34-00	84.318	62,500	0	0	0
			<u>225,000</u>	<u>0</u>	<u>312,500</u>	<u>0</u>
Goals 2000 - State and Local Education Systemic Improvement	G2-S2-99	84.276	0	0	6,881	0
Title VI-R Class Size Reduction	CR-S1-00	84.340	72,587	0	55,421	0
Total U.S. Department of Education			<u>1,079,550</u>	<u>0</u>	<u>1,090,945</u>	<u>0</u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><b>\$1,340,126</b></u>	<u><b>\$36,067</b></u>	<u><b>\$1,385,538</b></u>	<u><b>\$38,444</b></u>

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

**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2000**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - NUTRITION CLUSTER**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2000, the District had an insignificant amount of food commodities in their inventory.

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

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

To the Board of Education:

We have audited the financial statements of Hillsboro City School District, Highland County, Ohio (the District), as of and for the fiscal year ended June 30, 2000, and have issued our report thereon dated December 20, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-10436-001, 2000-10436-002, and 2000-10436-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 20, 2000.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings as items 2000-10436-002 and 2000-10436-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 20, 2000.

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

**Jim Petro**  
Auditor of State

December 20, 2000



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

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

To the Board of Education:

**Compliance**

We have audited the compliance of Hillsboro City School District, Highland County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the fiscal year ended June 30, 2000. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the fiscal year ended June 30, 2000.

**Internal Control Over Compliance**

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

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

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

**Jim Petro**  
Auditor of State

December 20, 2000



**HILLSBORO CITY SCHOOL DISTRICT  
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2000**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Education Agencies - CFDA #84.010, Technology Literacy Challenge Grant Funds - CFDA #84.318
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	No

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

**FINDING NUMBER 2000-10436-001**

**Noncompliance Citation - Expenditures in Excess of Appropriations**

Ohio Rev. Code, Section 5705.41(B), states that no subdivision shall make any expenditure of money unless it has been appropriated. Expenditures exceeded appropriations at the legal level of control throughout the audit period in various funds. Additionally, the District had expenditures in excess of appropriations at June 30, 2000, in the SchoolNet FY '00 Fund/Special Cost Center. Total expenditures were \$125,594.94, while no legal appropriation for this money was adopted. There was a memorandum entry receipt and expenditure posted as a result of disbursements from Ohio SchoolNet directly to vendors on the District's behalf. This activity was related to a grant agreement entered into between the District and Ohio SchoolNet

**FINDING NUMBER 2000-10436-002**

**Noncompliance Citation - Internal Control Reportable Condition - Appropriation Measures**

Ohio Rev. Code, Section 5705.38, provides that a permanent appropriation measure is to be adopted by October 1. The District passed a temporary appropriation measure at the beginning of the fiscal year; however, a permanent appropriation measure was not passed until the final appropriation measure was passed on June 28, 2000, contrary to this Section. Temporary appropriation measures are intended to cover expenditures from the beginning of the fiscal year until a permanent measure is passed.

Ohio Rev. Code, Section 5705.40, provides that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. Our review indicated that appropriations were changed throughout the year in the District's accounting system without the Board of Education's approval. The Board did approve the final appropriation resolution passed in June.

Passage of a permanent appropriation measure and approval of amended or supplemental appropriations are not only required by the Ohio Revised Code, but are also key controls in the District's accounting function. When appropriations posted to the accounting system have not been approved by the Board, the accounting system is no longer an effective tool for monitoring budgetary expenditures versus appropriations. Furthermore, monthly reports provided to the Board which detail budget versus actual numbers do not reflect the District's legally adopted appropriations. This could lead to expenditures being made in excess of appropriations. The Board of Education should adopt a permanent appropriation measure prior to October 1 of each fiscal year and approve all amended or supplemental appropriations throughout the fiscal year.

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

(Continued)

**FINDING NUMBER 2000-10436-003**

**Noncompliance Citation - Internal Control Reportable Condition - Budget Reserve**

Ohio Rev. Code, Section 5705.29(H), provides that the auditor of state and the superintendent of public instruction jointly shall adopt rules governing conditions that constitute unanticipated deficiencies in revenue or emergencies for which appropriations may be made from a reserve balance account. These governing conditions are outlined in Ohio Administrative Code, Section 3301-92-03(D). This Administrative Code Section provides that a Board of Education may, with a 2/3 vote of its members, appropriate from their budget reserve if it:

- A. experiences a deficit unreserved fund balance for the current fiscal year as defined in the five year forecast; and
- B. files an acceptable schedule to replenish the set-aside balance;
- C. certifies that the deficit was caused by one of the reasons identified in the revised rule or the district is in fiscal watch or emergency.

The District appropriated and encumbered a portion of their budget reserve during the audit period, without meeting the aforementioned requirements. The District did experience a deficit unreserved fund balance as defined in the five-year forecast, but did not file an acceptable schedule to replenish the set-aside balance or certify that the deficit was caused by one of the reasons identified in the revised rule. Additionally, the Board did not, with a 2/3 vote of its members, pass a resolution to appropriate from the Budget Reserve.

This noncompliance resulted from a lack of appropriate monitoring of the budget reserve during the audit period. The District has not established a special cost center to account for monies required to be set aside for the budget reserve and the District did not calculate their fiscal year 2000 budget reserve requirement until after the end of the fiscal year. Also, as noted in Auditor of State Bulletin 98-0014 Question and Answer #37, the budget stabilization set-aside should be treated like an encumbrance. It is not available for appropriation without prior approval and should be excluded from the reported amount available for appropriation on the certificate of year-end balances [Ohio Revised Code, Section 5705.36 certification].

As of the date of this report, Senate Bill 345 is currently pending. This legislation will eliminate the requirement for school districts to maintain a budget reserve.

**3. FINDINGS FOR FEDERAL AWARDS**

None





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**HILLSBORO CITY SCHOOL DISTRICT**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 16,, 2001**