

Hillsdale Local School District

Audited Financial Statements

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Hillsdale Local School District
Jeromesville, Ohio

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 10, 2005

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

JUNE 30, 2004

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 20, 2005

To the Board of Education
Hillsdale Local School District
Jeromesville, OH 44840

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hillsdale Local School District (the "District"), Ashland County, Ohio as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 4, Hillsdale Local School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we also have issued our report dated January 20, 2005 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 the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Rea & Associates, Inc.

*Hillsdale Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- General Revenues accounted for \$7.8 million in revenue or 87% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1,130,748 or 13% of total revenues of \$8.9 million.
- Total program expenses were \$9.8 million.
- In total, net assets decreased \$825,006.
- Outstanding bonded debt decreased from \$350,000 to \$245,350 through the payment of bond principal.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, the School District is reported as a governmental activity.

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

*Hillsdale Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

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

Proprietary Funds - The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominantly benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

The proprietary fund financial statements begin on page 17.

Fiduciary Funds – The School District's fiduciary funds are for Student Managed Activities and Student Scholarships. The School District's fiduciary activities are reported in the Statement of Fiduciary Assets and Liabilities. We exclude those activities from the School District's other financial statements because the assets can't be used by the School District to finance operations.

The fiduciary fund financial statements begin on page 20.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22.

*Hillsdale Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The School District as a Whole

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

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

**(Table 1)
Net Assets**

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$ 5,292,685	\$ 5,407,848
Capital Assets	3,771,537	3,790,567
<i>Total Assets</i>	9,064,222	9,198,415
Liabilities		
Long-Term Liabilities	1,211,561	1,116,426
Other Liabilities	4,691,117	4,095,439
<i>Total Liabilities</i>	5,902,678	5,211,865
Net Assets		
Invested in Capital Assets Net of Debt	3,468,173	3,367,554
Restricted	61,169	145,882
Unrestricted (Deficit)	(367,798)	473,114
<i>Total Net Assets</i>	\$ 3,161,544	\$ 3,986,550

Total assets decreased by \$134,193. A decrease of approximately \$19,030 in total capital assets reflects depreciation exceeding additional purchases. Total liabilities increased by \$690,813. This is the result of an increase in intergovernmental, accrued wages and benefits and claims.

*Hillsdale Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	Governmental Activities 2004
Revenues:	
<i>Program Revenues:</i>	
Charges for Services	\$ 647,789
Operating Grants	482,959
<i>General Revenue:</i>	
Property Taxes	3,343,729
Grants and Entitlements	4,414,852
Other	105,648
<i>Total Revenues</i>	8,994,977
Program Expenses:	
Instruction	5,718,275
Support Services	3,346,155
Operation of Non-Instructional	393,527
Extracurricular Activities	337,468
Interest and Fiscal Charges	24,558
<i>Total Expenses</i>	9,819,983
<i>Decrease in Net Assets</i>	\$ (825,006)

Governmental Activities

Information about the School District's governmental activities starts on page 10.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$9 million and expenditures of \$9.8 million. Comparisons to 2003 have not been made since they are not available.

*Hillsdale Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

**(Table 3)
Governmental Activities**

	2004	
	Total Cost of Service	Net Cost of Service
Instruction	\$ 5,718,275	\$ 5,334,899
Support Services:		
Pupil and Instructional Staff	878,476	775,714
Board of Education, Administration and Fiscal	1,136,524	1,035,218
Operation and Maintenance of Plant	609,813	590,545
Pupil Transportation	710,440	692,308
Central	10,902	1,856
Operation of Non-Instructional	393,527	51,653
Extracurricular Activities	337,468	182,484
Interest and Fiscal Charges	24,558	24,558
<i>Total Expenses</i>	\$ 9,819,983	\$ 8,689,235

Instruction and student support services comprise 92% of governmental program expenses. Interest/fiscal charges were .002%. Interest expense was attributable to the outstanding bonds, and fiscal expenses include payments to the County Auditor(s) for administrative fees. Extracurricular and operation of non-instructional services of facilities accounts for 7% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for Hillsdale Local School District students.

General Fund Budgeting Highlights

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

The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$8.0 million, under the original budget estimates of \$8.2 million. Of this \$200,000 shortfall, most was attributable to a decrease in interest earnings and a decrease in tuition and fees. Both of these reasons can be attributed to a weakened economy.

Final appropriations of \$9.13 million, were \$20,000 higher than the \$9.11 million in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be higher than anticipated. Property/liability/fleet insurances saw significant increases in response to the events of September 11, 2001.

*Hillsdale Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$3.7 million invested in land, buildings, equipment, and textbooks. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	Governmental Activities	
	2004	2003
Land	\$ 227,735	\$ 227,735
Buildings and Improvements	2,575,159	2,587,953
Furniture and Equipment	520,456	548,676
Vehicles	306,034	263,245
Infrastructure	14,559	12,750
Textbooks	127,594	150,208
<i>Totals</i>	\$ 3,771,537	\$ 3,790,567

The \$19,030 decrease in capital assets was attributable to depreciation expense exceeding additional purchases.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2004, this amounted to \$158,994 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements. For the textbooks, the School District disbursed \$233,285, with the remainder scheduled to be carried forward into the 2005 fiscal year.

*Hillsdale Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Debt

At June 30, 2004, the School District had \$245,350 in bonds outstanding with \$12,500 due within one year. During fiscal year 2003, \$105,000 of general obligation bonds were retired. Table 5 summarizes bonds outstanding.

**(Table 5)
Outstanding Debt, at June 30**

	Governmental Activities 2004	Governmental Activities 2003
General Obligation Bonds:		
HB 264	\$ 0	\$ 95,000
HB 264	245,350	255,350
<i>Totals</i>	\$ 245,350	\$ 350,350

In 1999, the School District entered into an energy conservation loan providing \$770,000 for energy conservation improvements to school buildings and in 1999, the School District entered into an energy conservation loan providing \$287,000 for energy conservation improvements to school buildings.

Current Issues

The Hillsdale Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last new operating levy passed by the residents of the district was in August, 1999, with the promise that the revenue generated by a levy would provide sufficient funding for four years. The Board of Education anticipates submitting a replacement operating levy to the residents of the district in 2004.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 77% of revenues for governmental activities for the Hillsdale Local School District in year 2004.

*Hillsdale Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched for the four years it was planned. This has been made increasingly difficult with mandates in rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Hillsdale Local School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern will be the State Legislative approval of the biennial budget, effective July 1, 2005. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Marjorie Travis, Treasurer of Hillsdale Local School District, 485 TR 1902, Jeromesville, Ohio. e-mail hill_travis@tccsa.net.

Hillsdale Local School District

Statement of Net Assets

June 30, 2004

	Governmental Activities	Total
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 1,130,107	\$ 1,130,107
Cash and Cash Equivalents:		
In Segregated Accounts	25,867	25,867
Receivables:		
Taxes	3,953,744	3,953,744
Accounts	30,945	30,945
Intergovernmental	18,774	18,774
Prepaid Items	117,416	117,416
Materials and Supplies	15,832	15,832
Nondepreciable Capital Assets	227,735	227,735
Depreciable Capital Assets (Net)	3,543,802	3,543,802
Total Assets	9,064,222	9,064,222
Liabilities		
Accounts Payable	36,123	36,123
Accrued Wages and Benefits	856,838	856,838
Compensated Absences Payable	26,807	26,807
Intergovernmental Payable	203,755	203,755
Deferred Revenue	3,202,780	3,202,780
Claims Payable	364,814	364,814
Long Term Liabilities:		
Due Within One Year	44,052	44,052
Due Within More Than One Year	1,167,509	1,167,509
Total Liabilities	5,902,678	5,902,678
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,468,173	3,468,173
Restricted for:		
Capital Projects	51,566	51,566
Other Purposes	9,603	9,603
Unrestricted	(367,798)	(367,798)
Total Net Assets	\$ 3,161,544	\$ 3,161,544

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Total
Governmental Activities					
Current:					
Instruction:					
Regular	\$ 4,564,140	\$ 145,221	\$ 77,201	\$ (4,341,718)	\$ (4,341,718)
Special	634,129	13,201	128,181	(492,747)	(492,747)
Vocational	329,491	8,487	6,002	(315,002)	(315,002)
Other	190,515	5,083	0	(185,432)	(185,432)
Support services:					
Pupils	493,450	11,637	50,020	(431,793)	(431,793)
Instructional staff	385,026	8,694	32,411	(343,921)	(343,921)
Board of education	42,775	1,104	0	(41,671)	(41,671)
Administration	809,054	27,497	64,807	(716,750)	(716,750)
Fiscal	284,695	7,497	401	(276,797)	(276,797)
Operation and maintenance of plant	609,813	16,950	2,318	(590,545)	(590,545)
Pupil transportation	710,440	17,341	791	(692,308)	(692,308)
Central	10,902	46	9,000	(1,856)	(1,856)
Operation of non-instructional services	393,527	238,541	103,333	(51,653)	(51,653)
Extracurricular activities	337,468	146,490	8,494	(182,484)	(182,484)
Interest and fiscal charges	24,558	0	0	(24,558)	(24,558)
Total Governmental Activities	<u>9,819,983</u>	<u>647,789</u>	<u>482,959</u>	<u>(8,689,235)</u>	<u>(8,689,235)</u>
Totals	<u>\$ 9,819,983</u>	<u>\$ 647,789</u>	<u>\$ 482,959</u>	<u>(8,689,235)</u>	<u>(8,689,235)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes				3,250,553	3,250,553
Debt Service				68,578	68,578
Capital Outlay				24,598	24,598
Grants and Entitlements not Restricted to Specific Programs				4,414,852	4,414,852
Contributions and donations				2,103	2,103
Investment Earnings				21,636	21,636
Miscellaneous				81,909	81,909
Total General Revenues				<u>7,864,229</u>	<u>7,864,229</u>
Change in Net Assets				(825,006)	(825,006)
Net Assets Beginning of Year - Restated (<i>See note 3</i>)				<u>3,986,550</u>	<u>3,986,550</u>
Net Assets End of Year				<u>\$ 3,161,544</u>	<u>\$ 3,161,544</u>

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 970,897	\$ 158,029	\$ 1,128,926
Receivables:			
Taxes	3,841,750	111,994	3,953,744
Accounts	28,140	2,805	30,945
Interfund	260,686	0	260,686
Intergovernmental	0	18,774	18,774
Prepaid Items	109,560	7,856	117,416
Materials and Supplies	0	15,832	15,832
Total Assets	\$5,211,033	\$315,290	\$5,526,323
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 25,383	\$ 10,740	\$ 36,123
Accrued Wages and Benefits	806,753	50,085	856,838
Compensated Absences Payable	26,807	0	26,807
Interfund Payable	0	62,378	62,378
Intergovernmental Payable	135,042	3,670	138,712
Deferred Revenue	3,271,459	95,369	3,366,828
Total Liabilities	4,265,444	222,242	4,487,686
Fund Balances			
Fund Balance:			
Reserved for Encumbrances	52,108	25,952	78,060
Reserved for Inventory	0	15,832	15,832
Reserved for Prepaid Items	109,560	7,856	117,416
Reserved for Tax Revenue Unavailable for Appropriation	570,291	16,625	586,916
Undesignated, Unreserved Reported in:			
General Fund	213,630	0	213,630
Special Revenue Funds	0	7,156	7,156
Capital Projects Funds	0	19,627	19,627
Total Fund Balances	945,589	93,048	1,038,637
Total Liabilities and Fund Balances	\$ 5,211,033	\$ 315,290	\$ 5,526,323

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2004*

Total Governmental Fund Balances	\$	1,038,637
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		3,771,537
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. Delinquent Property Taxes		281,464
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(653,490)
Intergovernmental payables include contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(65,043)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	\$ (245,350)	
Compensated Absences	(908,197)	
Capital Leases Payable	(58,014)	
	\$ (1,211,561)	(1,211,561)
Net Assets of Governmental Activities	\$	3,161,544

The accompanying notes are an integral part of the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 3,224,142	\$ 92,845	\$ 3,316,987
Intergovernmental	4,404,712	508,578	4,913,290
Investment income	21,636	0	21,636
Tuition and fees	229,728	28,617	258,345
Extracurricular activities	0	150,735	150,735
Rentals	260	0	260
Charges for services	0	238,449	238,449
Contributions and Donations	914	1,189	2,103
Miscellaneous	24,015	57,894	81,909
Total Revenues	7,905,407	1,078,307	8,983,714
Expenditures:			
Current:			
Instruction:			
Regular	4,222,095	136,818	4,358,913
Special	500,186	129,066	629,252
Vocational	307,031	6,079	313,110
Other	190,515	0	190,515
Support services:			
Pupils	414,693	53,204	467,897
Instructional staff	325,040	38,691	363,731
Board of education	41,721	0	41,721
Administration	657,128	120,215	777,343
Fiscal	270,991	2,043	273,034
Operation and maintenance of plant	625,654	2,781	628,435
Pupil transportation	631,385	791	632,176
Central	1,902	9,000	10,902
Operation of non-instructional services	1,327	379,301	380,628
Extracurricular activities	194,789	139,730	334,519
Capital outlay	35,121	59,657	94,778
Debt service:			
Principal retirement	0	105,000	105,000
Interest and fiscal charges	0	18,055	18,055
Total Expenditures	8,419,578	1,200,431	9,620,009
<i>Excess of Revenues Over (Under) Expenditures</i>	(514,171)	(122,124)	(636,295)
Other Financing Sources (Uses):			
Proceeds from sales of capital assets	2,741	0	2,741
Transfers in	0	83,116	83,116
Transfers out	(82,055)	(1,061)	(83,116)
<i>Total Financing Sources and (Uses)</i>	(79,314)	82,055	2,741
<i>Net Change in Fund Balance</i>	(593,485)	(40,069)	(633,554)
<i>Fund balance at beginning of year</i>	1,539,074	135,318	1,674,392
<i>Increase (decrease) in reserve for inventory</i>	0	(2,201)	(2,201)
Fund balance at end of year	\$ 945,589	\$ 93,048	\$ 1,038,637

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (633,554)

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

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

Capital Asset Additions	\$ 129,678	
Current Year Depreciation	<u>(127,620)</u>	2,058

Net effect of transactions involving sale of capital assets are not reflected in the funds (21,088)

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

Grants	(15,479)	
Delinquent Property Taxes	<u>26,742</u>	11,263

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 14,650

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 105,000

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

Compensated Absences	(214,785)	
Pension Obligation	(3,146)	
Change in Inventory	<u>(2,201)</u>	(220,132)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities. (83,203)

Change in Net Assets of Governmental Activities \$ (825,006)

The accompanying notes are an integral part of the basic financial statements.

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 3,258,195	\$ 3,285,038	\$ 3,285,038	\$ 0
Intergovernmental	4,507,623	4,408,270	4,411,572	3,302
Investment Income	45,000	21,427	21,636	209
Tuition and Fees	314,500	230,189	230,029	(160)
Rentals	0	260	260	0
Contributions and Donations	200	914	914	0
Miscellaneous	35,284	23,749	23,748	(1)
Total Revenues	<u>8,160,802</u>	<u>7,969,847</u>	<u>7,973,197</u>	<u>3,350</u>
Expenditures:				
Current				
Instruction:				
Regular	4,542,698	4,490,918	4,201,293	289,625
Special	596,615	560,398	525,903	34,495
Vocational	311,251	311,569	306,935	4,634
Other	225,000	225,000	190,515	0
Support Services				
Pupils	369,175	427,402	411,639	15,763
Instructional Staff	302,451	367,359	324,129	43,230
Board of Education	57,958	61,840	39,422	22,418
Administration	714,275	678,071	658,448	19,623
Fiscal	306,419	296,195	273,788	22,407
Operation and Maintenance of Plant	694,463	702,531	624,765	77,766
Pupil Transportation	641,296	658,802	624,942	33,860
Central	4,434	4,434	1,902	2,532
Operation of Non-Instructional Services	2,600	3,025	1,327	1,698
Extracurricular Activities	211,940	210,450	202,700	7,750
Capital Outlay	133,532	133,532	95,798	37,734
Total Expenditures	<u>9,114,107</u>	<u>9,131,526</u>	<u>8,483,506</u>	<u>613,535</u>
Excess of Revenues Over (Under) Expenditures	(953,305)	(1,161,679)	(510,309)	651,370
Other Financing Sources (Uses):				
Proceeds from Sale of Assets	2,000	2,741	2,741	0
Refund of Prior Year Expenditures	30,000	13,831	13,831	0
Advances In	364,853	364,853	364,853	0
Advances Out	(305,000)	(287,580)	(260,686)	26,894
Transfers Out	(82,055)	(82,055)	(82,055)	0
Total Other Financing Sources (Uses)	<u>9,798</u>	<u>11,790</u>	<u>38,684</u>	<u>26,894</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(943,507)	(1,149,889)	(471,625)	678,264
<i>Fund Balance at Beginning of Year</i>	1,042,041	1,042,041	1,042,041	0
Prior Year Encumbrances Appropriated	324,105	324,105	324,105	0
Fund Balance at End of Year	<u>\$ 422,639</u>	<u>\$ 216,257</u>	<u>\$ 894,521</u>	<u>\$ 678,264</u>

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District

Statement of Net Assets

Internal Service Fund

June 30, 2004

	Governmental Activities Internal Service Fund
Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$ 1,181
Cash and Cash Equivalents: In Segregated Accounts	<u>25,867</u>
<i>Total Current Assets</i>	<u>27,048</u>
 <i>Total Assets</i>	 <u>27,048</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	198,308
Deferred Revenue	117,416
Claims Payable	<u>364,814</u>
<i>Total Current Liabilities</i>	<u>680,538</u>
 <i>Total Liabilities</i>	 <u>680,538</u>
 Net Assets	
Unrestricted	<u>(653,490)</u>
 <i>Total Net Assets</i>	 <u><u>\$ (653,490)</u></u>

The accompanying notes are an integral part of the basic financial statements.

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

	Governmental Activities - Internal Service Fund
Operating Revenues:	
Charges for services	\$ 1,462,697
<i>Total Operating Revenues</i>	1,462,697
Operating Expenses:	
Purchased services	264,810
Claims	1,281,090
<i>Total Operating Expenses</i>	1,545,900
Operating income (loss)	(83,203)
<i>Change in Net Assets</i>	(83,203)
<i>Net Assets (Deficit) Beginning of Year</i>	(570,287)
<i>Net Assets (Deficit) End of Year</i>	\$ (653,490)

The accompanying notes are an integral part of the basic financial statements.

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

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows From Operating Activities:	
Cash Received for Interfund Services	\$ 1,475,616
Cash Paid for Goods and Services	(264,810)
Cash Paid for Claims	<u>(1,083,816)</u>
<i>Net Cash Provided By Operating Activities</i>	<u>126,990</u>
Cash Flows From Non-Capital Financing Activities:	
Interfund from Other Funds	(346,853)
Interfund to Other Funds	<u>198,308</u>
<i>Net Cash (Used For) Non-Capital Activities</i>	<u>(148,545)</u>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	(21,555)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>48,603</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 27,048</u></u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:	
Operating Loss	\$ (83,203)
Increase in Liabilities	
Deferred Revenue	12,919
Claims Payable	<u>197,274</u>
<i>Total Adjustments</i>	<u>210,193</u>
<i>Net Cash Provided By Operating Activities</i>	<u><u>\$ 126,990</u></u>

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 1,291	\$ 29,669
Cash and Cash Equivalents in Segregated Accounts	2,841	0
<i>Total Current Assets</i>	4,132	29,669
Noncurrent Assets:		
Restricted Investment	5,000	0
<i>Total Assets</i>	\$ 9,132	\$ 29,669
Liabilities		
Accounts Payable	\$ 0	\$ 18
Due to Students	0	29,651
<i>Total Liabilities</i>	0	\$ 29,669
Net Assets		
Unrestricted	\$ 2,132	
Held in Trust for Scholarships	7,000	
<i>Total Net Assets</i>	\$ 9,132	

The accompanying notes are an integral part of the basic financial statements.

Hillsdale Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust
	Scholarship
Additions	
Interest	\$ 44
Total Additions	44
Deductions	
Scholarships Awarded	45
<i>Change in Net Assets</i>	(1)
<i>Net Assets Beginning of Year</i>	9,133
<i>Net Assets End of Year</i>	\$ 9,132

The accompanying notes are an integral part of the basic financial statements.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Hillsdale Local School District (District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the District. Average daily membership on, or as of October 1, 2003, was 1,091. The District employs 80 certificated and 45 non-certificated employees.

The reporting entity is required to be composed of the primary government, component units and other organizations that are included to ensure that the general purpose financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District. The District has no component units.

The District is involved with Tri-County Computer Service Association (TCCSA) and Ashland County-West Holmes Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organization is presented in Note 18.

Management believes the general purpose financial statements included in the report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

B. Fund Accounting

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

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

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

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

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

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal Service Fund – The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for a self-insurance program, which provides medical benefits to employees.

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 11.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Cash and Cash Equivalents

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

During fiscal year 2004, investments were limited to repurchase agreements, STAROhio (the State Treasurer's Investment Pool), and certificates of deposit.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$21,636, which includes \$9,403 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

F. Prepaid Items

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

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional materials. See Note 16 for additional information regarding set-asides.

HILLSDALE LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Governmental Activities Estimated Lives
Land	N/A
Buildings and Improvements	5-50 Years
Furniture and Fixtures	5-20 Years
Vehicles	6-20 Years
Infrastructure	5-50 Years
Textbooks and materials	20 Years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

K. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

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

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Operating Revenues and Expenses

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

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

R. Estimates

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

S. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. Throughout the fiscal year, the primary level of budgetary control was at the object code within function level within the General Fund. For all other funds, the legal level of control was at the fund level. Budgetary modifications may only be made by resolution of the Board of Education.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Budget Prior to January 15, the Superintendent and Treasurer submit to the Board 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 express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Perry County Budget Commission for rate determination.

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

Appropriations A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at any level of control. 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. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND
BALANCES/NET ASSETS

Changes in Accounting Principles For fiscal year 2004, the School District has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments,” GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus,” GASB Statement No. 38, “Certain Financial Statement Note Disclosures” and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District’s programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by elimination of the internal service fund and the conversion to the accrual basis of accounting and the reclassification of funds based on the guidance provided in Statement No. 34. Due to these fund reclassifications, there are no business-type activities reported.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND
BALANCES/NET ASSETS (Continued)**

Restatement of Fund Balance The following describes the transition from governmental fund balance to net assets of the governmental activities.

	General	Nonmajor	Total
Fund Balances, June 30, 2003	\$ 1,539,074	\$ 141,256	\$ 1,680,330
Fund structure	0	(5,938)	(5,938)
Restated fund balances, June 30, 2003	\$ 1,539,074	\$ 135,318	1,674,392
GASB 34 Adjustments:			
Capital Assets			3,790,567
Capital Leases			(72,663)
Compensated Absences			(693,413)
Internal Service Fund			(570,287)
Pension Obligations			(61,897)
Long-Term (Deferred) Assets			270,201
Long-Term Liabilities			(350,350)
Governmental Activities Net Assets, June 30, 2003			\$ 3,986,550

NOTE 4: FUND DEFICITS

Fund balances/net assets at June 30, 2004 including the following individual fund deficits:

	Deficit
Other Governmental Funds:	
Title I	\$ 5,157
Food Service	63,771
Safety School Helpline	9
	\$ 68,937

The deficits in the special revenue funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual, is presented for the general fund on the budgetary basis to provide meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ (593,485)
Net adjustment for revenue accruals	81,620
Advance in	364,853
Advance out	(260,686)
Net adjustment for expenditure accruals	12,448
Adjustment for encumbrances	<u>(76,375)</u>
Budget Basis	<u>\$ (471,625)</u>

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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

Interim monies may 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 or interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- 4) Bonds and any 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; and
- 6) The State Treasurer's Investment Pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

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 District or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

Deposits

At year-end, the carrying amount of the District's deposits was \$(366,190), which includes petty cash and cash on-hand in the amount of \$125, and the bank balance was \$45,972. The entire bank balance was covered by federal depository insurance.

Funds Held by Fiscal Agent

The District participates in the Tri-County Educational Service Center Employees Insurance Consortium for employee benefits. The amount held at fiscal year end for the Employee Benefit Self-Insurance Fund was \$(171,261). All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Investments

At year end, the District's funds were invested entirely in the State Treasurer's Investment Pool with a balance of \$1,560,965. The State Treasurer's Pool does not require categorization under Governmental Accounting Standards Board Statement No. 3.

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

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,189,775	\$ 5,000
Investments which are part of cash management pool:		
STAR Ohio	(1,560,965)	1,560,965
Certificate of Deposit	5,000	(5,000)
GASB Statement No. 3	\$ (366,190)	\$ 1,560,965

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7: RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (customer services and student fees), accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Special Revenue:	
Title I	\$ 7,365
Food Service	<u>11,409</u>
	<u>\$ 18,774</u>

NOTE 8: CAPITAL ASSETS

	Restated Balance 6/30/2003	Additions	Reductions	Balance 6/30/2004
Governmental Activities:				
<i>Nondepreciable Capital Assets:</i>				
Land	\$ 227,735	\$ 0	\$ 0	\$ 227,735
<i>Depreciable capital assets:</i>				
Building and improvements	2,882,665	2,757	0	2,885,422
Furniture and equipment	1,779,762	38,118	(33,707)	1,784,173
Vehicles	697,765	86,793	(33,120)	751,438
Infrastructure	13,210	2,010	0	15,220
Textbooks	<u>532,988</u>	<u>0</u>	<u>0</u>	<u>532,988</u>
<i>Total capital assets, being depreciated</i>	5,906,390	129,678	(66,827)	5,969,241
<i>Less: accumulated depreciation:</i>				
Building and improvements	(294,712)	(15,551)	0	(310,263)
Furniture and equipment	(1,231,086)	(48,562)	15,931	(1,263,717)
Vehicles	(434,520)	(40,692)	29,808	(445,404)
Infrastructure	(460)	(201)	0	(661)
Textbooks	<u>(382,780)</u>	<u>(22,614)</u>	<u>0</u>	<u>(405,394)</u>
<i>Total accumulated depreciation</i>	<u>(2,343,558)</u>	<u>(127,620)</u>	<u>45,739</u>	<u>(2,425,439)</u>
<i>Total capital assets, being depreciated, net</i>	<u>3,562,832</u>	<u>2,058</u>	<u>(21,088)</u>	<u>3,543,802</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 3,790,567</u>	<u>\$ 2,058</u>	<u>\$ (21,088)</u>	<u>\$ 3,771,537</u>

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 8: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 55,125
Special	1,112
Vocational	2,001
Support Services:	
Pupils	435
Instructional Staff	17,047
Administration	2,611
Fiscal	297
Operation and Maintenance of Plant	1,802
Pupil Transportation	41,784
Operation of Non-Instructional Services	546
Extracurricular Activities	<u>4,860</u>
Total Depreciation Expense	<u>\$ 127,620</u>

NOTE 9: LONG-TERM OBLIGATIONS

The changes in the District's general long-term obligations during the fiscal year 2004 were as follows:

	<u>Outstanding June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding June 30, 2004</u>	<u>Due in One Year</u>
Energy Conservation Notes:					
5.5% interest rate, due June 1, 2004	\$ 95,000	\$ 0	\$ (95,000)	\$ 0	\$ 0
5.125% interest rate, due December 1, 2013	255,350	0	(10,000)	245,350	12,500
Capital lease payable	72,663	0	(14,649)	58,014	16,685
Compensated absences	<u>693,413</u>	<u>214,784</u>	<u>0</u>	<u>908,197</u>	<u>14,867</u>
	<u>\$ 1,116,426</u>	<u>\$ 214,784</u>	<u>\$ (119,649)</u>	<u>\$ 1,211,561</u>	<u>\$ 44,052</u>

Energy conservation notes are direct obligations of the District for which its full faith, credit and resources are pledged. Proceeds from the notes were used for energy conservation improvements to school buildings.

No new long-term debt was issued in 2004.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

The annual requirements to retire general obligation debt, including notes outstanding as of June 30, 2004, were as follows:

Fiscal Year Ending	General Obligation Bonds		Total
	Principal	Interest	
2005	\$ 12,500	\$ 12,254	\$ 24,754
2006	15,000	11,549	26,549
2007	17,500	10,716	28,216
2008	20,000	9,755	29,755
2009	22,500	8,666	31,166
2010-2014	157,850	22,182	180,032
Total	\$ 245,350	\$ 75,122	\$ 320,472

NOTE 10: CAPITALIZED LEASES – LESSEE DISCLOSURE

The District entered into a lease agreement for a copy machine. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service in the general purpose financial statements for the government funds.

The copy machine acquired by the lease has been capitalized in the governmental capital assets in the amount of \$67,520, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease.

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004:

		Copy Machine
Year ending June 30,	2005	\$ 21,857
	2006	21,857
	2007	14,939
	2008	10,076
		68,729
Less amount representing interest		10,715
Present value of minimum lease payments		\$ 58,014

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 11: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Property tax revenue received during calendar year 2004 for real and public utility property taxes represent collections of calendar year 2003 taxes. Property tax payments received during calendar year 2004 for tangible personal property (other than public utility property) is for calendar year 2004 taxes.

2004 real property taxes are levied after April 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

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

2004 tangible personal property taxes are levied after April 1, 2003 on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

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

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 96,119,220	77%	\$ 98,512,910	78%
Commercial/Industrial/ Public Utility	4,404,860	4%	4,407,230	3%
Tangible Personal Property	24,199,472	19%	23,753,774	19%
 Total Assessed Value	 \$ 124,723,552	 100%	 \$ 126,673,914	 100%
 Tax rate per \$1000 of assessed value	 \$ 49.40		 \$ 49.40	

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30, if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 11: PROPERTY TAXES (Continued)

The District receives property taxes from Ashland and Wayne Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including Hillsdale Local School District. The County Auditor periodically remits to the District its portion of taxes. Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, personal property and public utility taxes which became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the District as an advance at June 30, 2004 was \$586,916.

NOTE 12: DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System (SERS)

The 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 general purpose financial statements and required supplementary information for SERS. The 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 District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS; Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$140,486, \$137,256 and \$113,856, respectively. 49% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$71,856, representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds and the general long-term obligation account group.

B. State Teachers Retirement System (STRS)

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides 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 general purpose financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2002, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2002. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$556,896, \$543,588 and \$503,160, respectively; 83% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$92,176, representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

C. Social Security System

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

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 13: POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$37,690 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003 (the latest information available), the balance in the fund was \$2.8 billion. For the year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten years or more fiscal years of qualifying service credit, 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 5.83% of covered payroll, a decrease from 8.45% for fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$14,500. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$25,517.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 (the latest information possible), SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 14: INTERFUND BALANCES

As of June 30, 2004, receivables and payables that resulted from cash advances from the General Fund to other funds were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 260,686	\$ 0
Other Governmental:		
Internal Service	0	62,378
Self-Insurance Fund	<u>0</u>	<u>198,308</u>
Totals	<u>\$ 260,686</u>	<u>\$ 260,686</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

NOTE 15: DEFERRED REVENUE

	<u>Statement of Net Assets</u>	<u>Balance Sheet</u>
Property taxes receivable	\$ 3,085,364	\$ 3,366,828
Prepaid insurance premiums paid into self-insurance fund	<u>117,416</u>	<u>0</u>
	<u>\$ 3,202,780</u>	<u>\$ 3,366,828</u>

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 16: STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined by State statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004 the reserve activity was as follows:

	Textbooks	Capital Acquisition	Totals
Set-aside reserved balance as of June 30, 2003	\$ (343,095)	\$ 0	\$ (343,095)
Current year set-aside requirement	158,994	158,994	317,988
Current year offsets	0	(104,643)	(104,643)
Qualifying disbursements	(233,285)	(157,067)	(390,352)
 Total	 \$ (417,386)	 \$ (102,716)	 \$ (520,102)
 Set aside balance carried forward to FY 2005	 \$ (417,386)	 \$ 0	
 Set aside reserve balance as of June 30, 2004	 \$ 0	 \$ 0	

Effective April 10, 2003, the Ohio legislature passed Am. Sub. Senate Bill 345 that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from the law. A district may still establish a reserve, if it so chooses.

The District had qualifying disbursements during the year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements for future years.

Although the District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero, this extra amount may not be used to reduce the set-aside requirements for future years.

NOTE 17: RISK MANAGEMENT

A. General Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has a comprehensive property and casualty policy with a deductible of \$1,000 per incident on property and \$1,000 per incident on equipment. The District's vehicle insurance policy limit is \$2,000,000 with a \$500 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally, the District carries a \$5,000,000 blanket umbrella policy. The limits of this coverage are \$5,000,000 per occurrence and \$5,000,000 in aggregate. Settlement claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 17: RISK MANAGEMENT (Continued)

B. Fidelity Bond

The Board President and Superintendent have a \$20,000 position bond. The Treasurer is covered under a surety bond in the amount of \$100,000. All other school employees who are responsible for handling funds are covered by a \$25,000 fidelity bond, with a \$500 deductible, which is a separate policy from the property policy.

C. Workers' Compensation

The District pays the State Workers' Compensation System, an insurance purchasing pool, a premium based on a rate per \$100 of salaries. The District is a member of the Ohio Association of School Business Offices (OASBO) Group Rating System, an insurance purchasing pool. This rate is calculated based on accident history and administrative costs. The group presently consists of over 196 school districts.

D. Employee Health Insurance

Medical/surgical insurance, prescription, vision and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool, consisting of fifty members, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf.

The claims liability of \$364,814 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTES 17: RISK MANAGEMENT (Continued)

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

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2004	<u>\$ 167,540</u>	<u>\$ 1,281,090</u>	<u>\$ 1,083,816</u>	<u>\$ 364,814</u>
2003	<u>\$ 58,812</u>	<u>\$ 914,946</u>	<u>\$ 806,218</u>	<u>\$ 167,540</u>

The District's claims paid by the Tri-County Educational Service Center Employees Insurance Consortium exceeded premiums received from the District. At June 30, 2004, the District owes Tri-County Educational Service Center Employees Insurance Consortium \$171,261. Effective July 1, 2004, the District implemented a 30% increase in monthly premium charges to their respective funds in an effort to significantly reduce and/or eliminate the amount owed to Tri-County Educational Service Center Employees Insurance Consortium within two years.

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS

A. Tri-County Computer Service Association (TCCSA)

TCCSA is a jointly governed organization comprised of 20 school districts, created as a regional council of governments pursuant to state statute. 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 for member districts. Each of the governments of these districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Education Services Center, which serves as fiscal agent, located in Wooster, Ohio. During the year ended June 30, 2004, the District paid approximately \$79,665.

B. Ashland County-West Holmes Career Center (Career Center)

The Career Center, a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of State of Ohio. The continued existence of the Career Center is not dependent on the District's continued participation and no measurable equity interest exists.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 19: CONTINGENCIES

A. Grants

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

B. Litigation

The District is not party to any claims or lawsuits that would have a material effect on the basic financial statements.

NOTE 20: STATE SCHOOL FUNDING DECISION

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

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 20, 2005

To the Board of Education
Hillsdale Local School District
Jeromesville, OH 44840

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsdale Local School District (the "District") as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 20, 2005, which included an explanatory paragraph regarding the accounting change to GASB 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated January 20, 2005.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Rea & Associates, Inc.



**Auditor of State
Betty Montgomery**

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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
MARCH 22, 2005**