

**HILLSDALE LOCAL SCHOOL DISTRICT**



**AUDITED GENERAL PURPOSE  
FINANCIAL STATEMENTS  
JUNE 30, 2000**



**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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Hillsdale Local School District  
485 TR 1902  
Jeromesville, Ohio 44840

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, 1999 through June 30, 2000. 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.

JIM PETRO  
Auditor of State

December 31, 2000

**HILLSDALE LOCAL SCHOOL DISTRICT  
ASHLAND COUNTY**

**JUNE 30, 2000**

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# Rea & Associates, Inc.

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ACCOUNTANTS AND BUSINESS CONSULTANTS

December 5, 2000

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

## Independent Auditor's Report

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

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

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

In accordance with *Government Auditing Standards*, we also have issued our report dated December 5, 2000 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Rea & Associates, Inc.*

**HILLSDALE LOCAL SCHOOL DISTRICT**

*Combined Balance Sheet*

**All Fund Types and Account Groups**

June 30, 2000

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b><u>Assets</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$ 611,255	\$ 91,502	\$ 120,715
Restricted Equity in Pooled Cash	56,363	0	0
Investment - Restricted	0	0	0
Receivables:			
Taxes	3,501,180	0	108,284
Accounts	0	1,939	0
Interfund	20,400	0	0
Intergovernmental Receivable	0	3,000	0
Prepaid Items	49,068	0	0
Inventory	0	0	0
Fixed Assets (Net)	0	0	0
<b>Total Assets</b>	<b>4,238,266</b>	<b>96,441</b>	<b>228,999</b>
<b><u>Other Debits</u></b>			
Amount to be Provided from General			
Government Resources	0	0	0
<b>Total Other Debits</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Assets and Other Debits</b>	<b>\$ 4,238,266</b>	<b>\$ 96,441</b>	<b>\$ 228,999</b>
<b><u>Liabilities</u></b>			
Accounts Payable	\$ 48,811	\$ 5,588	\$ 10,445
Accrued Wages and Benefits	578,890	14,212	0
Compensated Absences Payable	109,714	0	0
Interfund Payable	0	0	0
Intergovernmental Payable	105,890	4,536	0
Deferred Revenue	3,126,687	0	96,702
Due to Students	0	0	0
Notes Payable	0	0	0
Claims Payable	0	0	0
Capital Lease Payable	0	0	0
<b>Total Liabilities</b>	<b>3,969,992</b>	<b>24,336</b>	<b>107,147</b>
<b><u>Fund Equity and Other Credits</u></b>			
Investment in General Fixed Assets	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance (Deficit):			
Reserved for Encumbrances	95,240	4,858	56,944
Reserved for Endowment	0	0	0
Reserved for Tax Revenue not Available			
for Appropriation	374,493	0	11,582
Reserved for Budget Stabilization	45,864	0	0
Reserved for Textbooks	10,499	0	0
Unreserved:			
Undesignated	(257,822)	67,247	53,326
<b>Total Fund Equity and Other Credits</b>	<b>268,274</b>	<b>72,105</b>	<b>121,852</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$ 4,238,266</b>	<b>\$ 96,441</b>	<b>\$ 228,999</b>

The accompanying notes are an integral part of these financial statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency Funds	General Fixed Assets	General Long-Term Obligations	
\$ 21,247	\$ 1,180	\$ 33,533	\$ 0	\$ 0	\$ 879,432
0	0	0	0	0	56,363
0	0	5,000	0	0	5,000
0	0	0	0	0	3,609,464
0	0	0	0	0	1,939
0	0	0	0	0	20,400
0	0	0	0	0	3,000
3,613	0	0	0	0	52,681
17,977	0	0	0	0	17,977
12,096	0	0	5,288,799	0	5,300,895
54,933	1,180	38,533	5,288,799	0	9,947,151
0	0	0	0	1,308,279	1,308,279
0	0	0	0	1,308,279	1,308,279
\$ 54,933	\$ 1,180	\$ 38,533	\$ 5,288,799	\$ 1,308,279	\$ 11,255,430
\$ 416	\$ 0	\$ 576	\$ 0	\$ 0	\$ 65,836
23,842	0	0	0	0	616,944
15,659	0	0	0	599,116	724,489
20,400	0	0	0	0	20,400
15,407	24,727	0	0	50,467	201,027
11,802	47,140	0	0	0	3,282,331
0	0	28,849	0	0	28,849
0	0	0	0	637,000	637,000
0	107,436	0	0	0	107,436
0	0	0	0	21,696	21,696
87,526	179,303	29,425	0	1,308,279	5,706,008
0	0	0	5,288,799	0	5,288,799
(32,593)	(178,123)	0	0	0	(210,716)
0	0	0	0	0	157,042
0	0	7,000	0	0	7,000
0	0	0	0	0	386,075
0	0	0	0	0	45,864
0	0	0	0	0	10,499
0	0	2,108	0	0	(135,141)
(32,593)	(178,123)	9,108	5,288,799	0	5,549,422
\$ 54,933	\$ 1,180	\$ 38,533	\$ 5,288,799	\$ 1,308,279	\$ 11,255,430

**HILLSDALE LOCAL SCHOOL DISTRICT**

*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances*  
**All Governmental Fund Types**

For the Year Ended June 30, 2000

	<b>Governmental Fund Types</b>				<b>Totals (Memorandum Only)</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	
<b>Revenues</b>					
Taxes	\$ 2,828,684	\$ 0	\$ 0	\$ 89,954	\$ 2,918,638
Intergovernmental	3,393,807	194,295	0	87,902	3,676,004
Investment Income	98,630	0	0	0	98,630
Tuition and Fees	237,441	0	0	0	237,441
Extracurricular Activities	0	127,202	0	0	127,202
Other Revenue	30,868	69,406	0	0	100,274
<b>Total Revenues</b>	<b>6,589,430</b>	<b>390,903</b>	<b>0</b>	<b>177,856</b>	<b>7,158,189</b>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	3,329,234	23,354	0	58,034	3,410,622
Special	354,993	110,485	0	0	465,478
Vocational	263,030	0	0	0	263,030
Other	180,914	0	0	0	180,914
Support Services:					
Pupils	231,660	48,008	0	0	279,668
Instructional Staff	175,288	17,741	0	0	193,029
Board of Education	45,115	0	0	0	45,115
Administration	524,624	71,202	0	0	595,826
Fiscal	184,315	0	0	1,206	185,521
Operation and Maintenance of Plant	370,186	1,331	0	0	371,517
Pupil Transportation	390,870	6,556	0	28,471	425,897
Operation of Non-Instructional Services	245	0	0	0	245
Extracurricular Activities	162,507	133,924	0	4,853	301,284
Capital Outlay	21,202	243	0	360,273	381,718
Debt Service:					
Principal Retirement	865	0	719,000	0	719,865
Interest and Fiscal Charges	512	0	63,520	0	64,032
<b>Total Expenditures</b>	<b>6,235,560</b>	<b>412,844</b>	<b>782,520</b>	<b>452,837</b>	<b>7,883,761</b>
Excess of Revenues Over (Under) Expenditures	353,870	(21,941)	(782,520)	(274,981)	(725,572)
<b>Other Financing Sources (Uses)</b>					
Proceeds from Capital Lease	16,350	0	0	0	16,350
Proceeds of Notes	634,000	0	0	287,000	921,000
Proceeds from Sales of Fixed Assets	2,757	0	0	0	2,757
Operating Transfers In	22,956	413	782,520	0	805,889
Operating Transfers Out	(751,765)	(13,124)	0	(41,000)	(805,889)
<b>Total Other Financing Sources (Uses)</b>	<b>(75,702)</b>	<b>(12,711)</b>	<b>782,520</b>	<b>246,000</b>	<b>940,107</b>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	278,168	(34,652)	0	(28,981)	214,535
Fund Balance (Deficit) at Beginning of Year	(9,894)	106,757	0	150,833	247,696
<b>Fund Balance at End of Year</b>	<b>\$ 268,274</b>	<b>\$ 72,105</b>	<b>\$ 0</b>	<b>\$ 121,852</b>	<b>\$ 462,231</b>

The accompanying notes are an integral part of these financial statements.

**HILLSDALE LOCAL SCHOOL DISTRICT**

*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual*  
**All Governmental Fund Types**  
(Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2000

	<b>General Fund</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Taxes	\$ 2,808,932	\$ 2,808,932	\$ 0
Intergovernmental	3,400,664	3,400,663	(1)
Investment Income	90,000	98,630	8,630
Tuition and Fees	237,458	237,441	(17)
Extracurricular Activities	0	0	0
Other Revenue	33,942	30,886	(3,056)
<b>Total Revenues</b>	<b>6,570,996</b>	<b>6,576,552</b>	<b>5,556</b>
<b>Expenditures</b>			
Current:			
Instruction	4,164,984	4,185,492	(20,508)
Support Services:			
Pupils	236,947	235,600	1,347
Instructional Staff	215,878	175,721	40,157
Board of Education	52,452	48,286	4,166
Administration	549,898	536,361	13,537
Fiscal	213,644	189,897	23,747
Operation and Maintenance of Plant	396,978	397,929	(951)
Pupil Transportation	445,168	444,926	242
Operation of Non-Instructional Services	1,208	1,311	(103)
Extracurricular Activities	162,304	163,539	(1,235)
Capital Outlay	24,100	22,704	1,396
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<b>Total Expenditures</b>	<b>6,463,561</b>	<b>6,401,766</b>	<b>61,795</b>
Excess of Revenues Over (Under) Expenditures	107,435	174,786	67,351
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	634,000	634,000	0
Proceeds from Sale of Assets	2,757	2,757	0
Refund of Prior Year Expenditures	8,839	8,839	0
Refund of Prior Year Receipts	(18)	(18)	0
Advances In	34,400	34,400	0
Advances Out	(36,000)	(20,400)	15,600
Operating Transfers In	22,956	22,956	0
Operating Transfers Out	(741,594)	(751,765)	(10,171)
<b>Total Other Financing Sources (Uses)</b>	<b>(74,660)</b>	<b>(69,231)</b>	<b>5,429</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	32,775	105,555	72,780
Fund Balance at Beginning of Year	340,545	340,545	0
Prior Year Encumbrances Appropriated	78,884	78,884	0
<b>Fund Balance at End of Year</b>	<b>\$ 452,204</b>	<b>\$ 524,984</b>	<b>\$ 72,780</b>

The accompanying notes are an integral part of these financial statements.



Special Revenue Fund			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
198,738	198,738	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
125,207	125,263	56	0	0	0
68,736	69,436	700	0	0	0
<u>392,681</u>	<u>393,437</u>	<u>756</u>	<u>0</u>	<u>0</u>	<u>0</u>
175,120	155,787	19,333	0	0	0
51,880	50,216	1,664	0	0	0
17,337	16,571	766	0	0	0
0	0	0	0	0	0
82,614	74,080	8,534	0	0	0
0	0	0	0	0	0
1,331	1,331	0	0	0	0
6,563	6,556	7	0	0	0
0	0	0	0	0	0
149,956	135,355	14,601	0	0	0
400	243	157	0	0	0
0	0	0	719,000	719,000	0
0	0	0	63,520	63,520	0
<u>485,201</u>	<u>440,139</u>	<u>45,062</u>	<u>782,520</u>	<u>782,520</u>	<u>0</u>
<u>(92,520)</u>	<u>(46,702)</u>	<u>45,818</u>	<u>(782,520)</u>	<u>(782,520)</u>	<u>0</u>
0	0	0	0	0	0
0	0	0	0	0	0
1,437	1,437	0	0	0	0
(30)	(30)	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
413	413	0	782,520	782,520	0
<u>(13,124)</u>	<u>(13,124)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>(11,304)</u>	<u>(11,304)</u>	<u>0</u>	<u>782,520</u>	<u>782,520</u>	<u>0</u>
(103,824)	(58,006)	45,818	0	0	0
110,377	110,377	0	0	0	0
28,936	28,936	0	0	0	0
<u>\$ 35,489</u>	<u>\$ 81,307</u>	<u>\$ 45,818</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

(Continued)

**HILLSDALE LOCAL SCHOOL DISTRICT**

*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual*  
**All Governmental Fund Types**  
 (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2000

	<b>Capital Projects Fund</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Taxes	\$ 93,153	\$ 93,153	\$ 0
Intergovernmental	87,902	87,902	0
Investment Income	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Other Revenue	0	0	0
<b>Total Revenues</b>	<u>181,055</u>	<u>181,055</u>	<u>0</u>
<b>Expenditures</b>			
Current:			
Instruction	145,919	112,193	33,726
Support Services:			
Pupils	0	0	0
Instructional Staff	0	0	0
Board of Education	0	0	0
Administration	0	0	0
Fiscal	2,200	1,206	994
Operation and Maintenance of Plant	0	0	0
Pupil Transportation	28,550	28,471	79
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	6,750	4,856	1,894
Capital Outlay	385,377	373,988	11,389
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<b>Total Expenditures</b>	<u>568,796</u>	<u>520,714</u>	<u>48,082</u>
Excess of Revenues Over (Under) Expenditures	<u>(387,741)</u>	<u>(339,659)</u>	<u>48,082</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	287,000	287,000	0
Proceeds from Sale of Assets	0	0	0
Refund of Prior Year Expenditures	0	0	0
Refund of Prior Year Receipts	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(41,000)	(41,000)	0
<b>Total Other Financing Sources (Uses)</b>	<u>246,000</u>	<u>246,000</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(141,741)</u>	<u>(93,659)</u>	<u>48,082</u>
Fund Balance at Beginning of Year	115,636	115,636	0
Prior Year Encumbrances Appropriated	<u>31,349</u>	<u>31,349</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 5,244</u>	<u>\$ 53,326</u>	<u>\$ 48,082</u>

The accompanying notes are an integral part of these financial statements.

<b>Totals (Memorandum Only)</b>		
<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
\$ 2,902,085	\$ 2,902,085	\$ 0
3,687,304	3,687,303	(1)
90,000	98,630	8,630
237,458	237,441	(17)
125,207	125,263	56
102,678	100,322	(2,356)
<u>7,144,732</u>	<u>7,151,044</u>	<u>6,312</u>
4,486,023	4,453,472	32,551
288,827	285,816	3,011
233,215	192,292	40,923
52,452	48,286	4,166
632,512	610,441	22,071
215,844	191,103	24,741
398,309	399,260	(951)
480,281	479,953	328
1,208	1,311	(103)
319,010	303,750	15,260
409,877	396,935	12,942
719,000	719,000	0
63,520	63,520	0
<u>8,300,078</u>	<u>8,145,139</u>	<u>154,939</u>
<u>(1,155,346)</u>	<u>(994,095)</u>	<u>161,251</u>
921,000	921,000	0
2,757	2,757	0
10,276	10,276	0
(48)	(48)	0
34,400	34,400	0
(36,000)	(20,400)	15,600
805,889	805,889	0
<u>(795,718)</u>	<u>(805,889)</u>	<u>(10,171)</u>
<u>942,556</u>	<u>947,985</u>	<u>5,429</u>
(212,790)	(46,110)	166,680
566,558	566,558	0
139,169	139,169	0
<u>\$ 492,937</u>	<u>\$ 659,617</u>	<u>\$ 166,680</u>

**HILLSDALE LOCAL SCHOOL DISTRICT**

*Combining Statement of Revenues,  
Expenses, and Changes in Fund Equity*

**All Proprietary Fund Types and Nonexpendable Trust Funds**

For the Year Ended June 30, 2000

	<b>Proprietary Fund Types</b>			<b>Totals (Memorandum Only)</b>
	<b>Enterprise</b>	<b>Internal Service</b>	<b>Nonexpendable Trust</b>	
<b><u>Operating Revenues</u></b>				
Sales	\$ 258,055	\$ 0	\$ 0	\$ 258,055
Charges for Services	0	557,516	0	557,516
Investment Income	0	4,130	395	4,525
Other Operating Revenues	0	535	0	535
<b><i>Total Operating Revenues</i></b>	<b>258,055</b>	<b>562,181</b>	<b>395</b>	<b>820,631</b>
<b><u>Operating Expenses</u></b>				
Salaries	136,386	0	0	136,386
Fringe Benefits	42,640	43,105	0	85,745
Purchased Services	6,943	59,526	0	66,469
Materials and Supplies	158,963	535	0	159,498
Depreciation	2,822	0	0	2,822
Claims Expense	0	619,540	0	619,540
Other Operating Expenses	0	0	300	300
<b><i>Total Operating Expenses</i></b>	<b>347,754</b>	<b>722,706</b>	<b>300</b>	<b>1,070,760</b>
Operating Income (Loss)	(89,699)	(160,525)	95	(250,129)
<b><u>Non-Operating Revenues</u></b>				
Operating Grants	60,160	0	0	60,160
Federal Donated Commodities	31,060	0	0	31,060
<b><i>Total Non-Operating Revenues</i></b>	<b>91,220</b>	<b>0</b>	<b>0</b>	<b>91,220</b>
Net Income (Loss)	1,521	(160,525)	95	(158,909)
Retained Earnings/Fund Balance (Deficit) at Beginning of Year	(34,114)	(17,598)	9,013	(42,699)
<b>Retained Earnings/Fund Balance (Deficit) at End of Year</b>	<b>\$ (32,593)</b>	<b>\$ (178,123)</b>	<b>\$ 9,108</b>	<b>\$ (201,608)</b>

The accompanying notes are an integral part of these financial statements.

Hillsdale Local School District

Combined Statement of Cash Flows

All Proprietary Fund Types and Nonexpendable Trust Funds

For the Year Ended June 30, 2000

	Proprietary Fund Types			Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>				
<b><u>Cash Flows From Operating Activities</u></b>				
Cash Received from Customers	\$ 258,357	\$ 558,051	\$ 0	\$ 816,408
Transactions with Other Funds	(14,000)	0	0	(14,000)
Interest Received	0	4,130	395	4,525
Cash Paid for Goods and Services	(135,782)	(60,061)	(300)	(196,143)
Cash Paid to Employees	(173,124)	(43,105)	0	(216,229)
Cash Paid for Claims and Expenses	0	(529,518)	0	(529,518)
<b>Net Cash Provided By (Used For) Operating Activities</b>	<b>(64,549)</b>	<b>(70,503)</b>	<b>95</b>	<b>(134,957)</b>
<b><u>Cash Flows From Non-Capital Financing Activities</u></b>				
Grants	68,239	0	0	68,239
<b>Net Cash Provided By Non-Capital Activities</b>	<b>68,239</b>	<b>0</b>	<b>0</b>	<b>68,239</b>
<b><u>Cash Flows From Capital Financing Activities</u></b>				
Purchase of Fixed Assets	(1,289)	0	0	(1,289)
<b>Net Cash (Used) By Capital Activities</b>	<b>(1,289)</b>	<b>0</b>	<b>0</b>	<b>(1,289)</b>
Net Increase (Decrease) in Cash and Cash Equivalents	2,401	(70,503)	95	(68,007)
Cash and Cash Equivalents at Beginning of Year	18,846	71,683	9,013	99,542
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 21,247</b>	<b>\$ 1,180</b>	<b>\$ 9,108</b>	<b>\$ 31,535</b>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</u></b>				
Operating Income (Loss)	\$ (89,699)	\$ (160,525)	\$ 95	\$ (250,129)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</b>				
Depreciation	2,822	0	0	2,822
Donated Commodities Used During Year	31,060	0	0	31,060
(Increase) Decrease in Assets:				
Accounts Receivable	302	0	0	302
Inventory	5,145	0	0	5,145
Prepaid Items	(1,649)	0	0	(1,649)
Increase (Decrease) in Liabilities:				
Accounts Payable	(487)	0	0	(487)
Intergovernmental Payable	0	24,727	0	24,727
Accrued Wages and Benefits	880	0	0	880
Compensated Absences Payable	3,836	0	0	3,836
Due to Other Governments	2,866	0	0	2,866
Interfund Payable	(14,000)	0	0	(14,000)
Claims Payable	0	59,432	0	59,432
Deferred Revenue	(5,625)	5,863	0	238
<b>Total Adjustments</b>	<b>25,150</b>	<b>90,022</b>	<b>0</b>	<b>115,172</b>
<b>Net Cash Provided By (Used For) Operating Activities</b>	<b>\$ (64,549)</b>	<b>\$ (70,503)</b>	<b>\$ 95</b>	<b>\$ (134,957)</b>
<b><u>Reconciliation of Cash and Cash Equivalents to the Balance Sheet</u></b>				
Trust and Agency	\$ 38,533			
Less: Agency Funds	29,425			
<b>Nonexpendable Trust Fund</b>	<b>\$ 9,108</b>			

The accompanying notes are an integral part of these financial statements.

## HILLSDALE LOCAL SCHOOL DISTRICT

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2000

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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, 1999, was 1,116. The District employs 78 certificated and 46 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 19.

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

A. Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounts of the District are organized and operated on the basis of funds and account groups to report on its financial position and the results of operations. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The District has the following fund types and account groups:

# HILLSDALE LOCAL SCHOOL DISTRICT

## NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2000

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### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Governmental Fund Types**

Governmental fund types are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period, which is considered to be sixty days. Generally property taxes, although measurable, are not available soon enough after the current period to finance current period obligations, and accordingly, property taxes receivable are reflected as deferred revenue until available. Reimbursements due for federally funded programs are recognized when the corresponding expenditures are made.

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, since the measurement focus of governmental funds is on decreases in financial resources. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payment to be made early in the following year. Compensated absences are reported as a fund liability when payment will require the current available financial resources. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. Governmental funds include the following fund types:

*General Fund* - The general fund is used to account for all financial resources except those required to be accounted for in another fund.

*Special Revenue Funds* - The special revenue funds are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

*Capital Projects Funds* - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Proprietary Fund Types**

The proprietary fund types are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the District has elected to apply only applicable Financial Accounting Standards Board Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations unless they contradict/conflict with Governmental Accounting Standards Board pronouncements. Proprietary funds include the following fund types:

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

*Internal Service Fund* - Internal service funds are used to account for the financing of goods or services provided by one department or agency to governmental units on a cost-reimbursement basis. The District does not account for the self-insurance fund on their books and does not budget for it. The activity and balances of this fund is included for GAAP reporting purposes only.

**Fiduciary Fund Types**

Fiduciary fund types account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary fund types are as follows:

*Nonexpendable Trust Funds* – The nonexpendable trust funds are accounted for in essentially the same manner as the proprietary fund.

*Agency Funds* - Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the District holds for others in an agency capacity.



HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Account Groups**

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

*General Fixed Assets Account Group* - This account group was established to account for all fixed assets of the District, other than those accounted for in proprietary or nonexpendable trust funds.

*General Long-term Obligations Account Group* - This account group was established to account for all long-term obligations of the District, except those accounted for in the proprietary or nonexpendable trust funds.

B. Budgetary Process

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 by the County Auditor.

All governmental funds are required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Modifications to total fund appropriations may only be made by resolution of the Board of Education. However, the Treasurer may make appropriation modifications at the function level without a Board of Education resolution as long as total appropriations per fund do not change.

C. Cash, Cash Equivalents, and Investments

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

During fiscal year 2000, investments were limited to STAR Ohio. 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 2000 amounted to \$98,630, which includes \$59,984 assigned from other District funds.

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

## HILLSDALE LOCAL SCHOOL DISTRICT

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2000

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2000. 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, 2000.

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

D. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve, textbook reserve, and capital maintenance reserve. These reserves are required by State statute. The budget stabilization reserve can be used only after receiving approval from the State Superintendent of Public Instruction. The capital maintenance reserve and textbook reserve can only be used for capital outlay expenditure and instructional materials and equipment, respectively. During fiscal year 2000, the District set aside the amounts required by state statute. Fund balance reserves have also been established.

E. Receivables

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

F. Estimates

The preparation of the 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 could differ from those estimates.

G. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables." Long-term interfund loans are classified as "advances to/from other funds" and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consist of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories are not significant for governmental fund types and, therefore, are not reported.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2000 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.

J. Fixed Assets and Depreciation

Fixed assets used in governmental fund types of the District are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. The District does not possess any infrastructure.

Fixed assets which are used in proprietary fund type activities are capitalized in the respective funds. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at estimated fair market value when received, based on historical information available. Depreciation is computed using the straight-line method based on the estimated life of assets. Estimated useful lives of the various classes of depreciable assets consist of: equipment - 5 to 20 years. The capitalization threshold is \$1,000.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under Ohio law, a debt service fund must be created and used for the payment of tax and revenue anticipation notes. Generally accepted accounting principles requires the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/ expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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 termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

The entire estimated amount of unpaid compensated absences, including sick pay and vacation pay, of proprietary type funds is reflected as a liability in the respective funds. The current portion of unpaid compensated absences for sick leave related to governmental fund type operations is reflected in the respective funds. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Reserves

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and materials, long-term advances to other funds, contributions to the nonexpendable trust funds that must be kept intact, and HB412 reserves such as textbooks and instructional materials, capital improvements, and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

O. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The District currently participates in several state and federal programs, categorized as follows:

Entitlements

*General Fund:*

State Foundation Program  
State Property Tax Relief  
School Bus Purchase Allowance

Non-Reimbursable Grants

*Special Revenue Funds:*

Education Management Information Systems  
Textbook Materials Subsidy Grant  
Conflict Management Grant  
Library Science Technology Grant  
Title I  
Title VI  
Title VI-B  
Title VI-B  
Drug-Free Schools  
Teacher Development Block Grant

*Capital Projects Funds:*

School Net  
Power Up

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reimbursable Grants

*General Fund:*

Driver Education

*Special Revenue Funds:*

Integration of the Arts Grant

Continuous Improvement Planning Grant

Ashland County Youth Crisis Response

Cluster Grant

Telecommunications Act Grant

Cross Train Your Brain Grant

*Proprietary Funds:*

National School Lunch Program

Government Donated Commodities

Grants and entitlements amounted to approximately 49% of the District's operating revenue during the 2000 fiscal year.

P. Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3: BUDGETARY PROCESS

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit a proposed operating budget to the Board of Education. A budget of estimated revenue and expenditures is submitted to the Ashland County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the ensuing July 1 to June 30 fiscal year.

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 District by March 1. As part of the certification, the District receives the official Certificate of Estimated Resources which states projected revenue of each fund. Prior to June 30, the District must revise its budget so 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

## HILLSDALE LOCAL SCHOOL DISTRICT

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2000

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NOTE 3: BUDGETARY PROCESS (Continued)

revenue is identified or actual receipts exceed current estimates. Budget receipts, as shown in the accompanying "Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types" do not include July 1, 1999 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation 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 fund level 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 allocation of appropriations among functions within a fund may be modified during the year by the Treasurer. Several supplemental appropriation resolutions were legally enacted by the Board of Education during the year. The budget figures, as shown in the accompanying "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types" represent the final appropriation amounts including all amendments and modifications.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective funds from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

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 budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the generally accepted accounting principles (GAAP) basis, encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balance for subsequent year expenditures.

Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the GAAP basis, the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and GAAP Basis are that:

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 3: BUDGETARY PROCESS (Continued)**

- 1) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- 2) Expenditures are recorded when paid in cash (budget basis) rather than when the liability is incurred (GAAP basis).
- 3) Encumbrances are treated as expenditure/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types as note disclosure in the proprietary fund type (GAAP basis).
- 4) Proceeds from and principal payments on bond and revenue anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
- 5) The District repays debt from the debt service fund (budget non-GAAP basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds follow:

Excess (Deficiency) of Revenues Over Expenditures and Other  
Sources (Uses) Reconciliation of Budget Basis to GAAP Basis

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>
Budgetary Basis	\$ 105,555	\$ (58,006)	\$ (93,659)
Encumbrances	142,636	10,195	67,389
Revenue accruals	49,646	(2,504)	(3,199)
Expenditure accruals	<u>(19,669)</u>	<u>15,663</u>	<u>488</u>
GAAP Basis	<u>\$ 278,168</u>	<u>\$ (34,652)</u>	<u>\$ (28,981)</u>

**NOTE 4: ACCOUNTABILITY AND COMPLIANCE**

At June 30, 2000, the following funds had a deficit fund balance: Food Service Enterprise Fund - \$46,525; Internal Service Fund - \$178,123, which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.



## HILLSDALE LOCAL SCHOOL DISTRICT

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2000

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#### NOTE 5: DEPOSITS AND INVESTMENTS

State statutes 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.

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).

## HILLSDALE LOCAL SCHOOL DISTRICT

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2000

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NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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 surety 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.

Deposits

At year-end, the carrying amount of the District's deposits was (\$41,792), which includes petty cash and cash on-hand in the amount of \$125, and the bank balance was \$37,773. The bank balance was entirely 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 \$(24,727). 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. An intergovernmental payable was established to reflect the cash deficit.

Investments

At year end, the District's funds were invested entirely in the State Treasurer's Investment Pool with a balance of \$982,587. The State Treasurer's Pool does not require categorization under Governmental Accounting Standards Board Statement No. 3.

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 935,795	\$ 5,000
Investments which are part of cash management pool:		
STAR Ohio	(982,587)	982,587
Certificate of Deposit	5,000	(5,000)
GASB Statement No. 3	\$ (41,792)	\$ 982,587

NOTE 6: FIXED ASSETS AND DEPRECIATION

A. General Fixed Assets Account Group

The changes in general fixed assets during the year consisted of:

	Balance July 1, 1999	Additions	Disposals	Balance June 30, 2000
Land and improvements	\$ 227,735	\$ 0	\$ 0	\$ 227,735
Buildings and improvements	1,964,238	484,068	0	2,448,306
Furniture and equipment	1,875,487	76,644	(12,171)	1,939,960
Vehicles	713,731	23,575	(69,360)	667,946
Construction in progress	0	4,852	0	4,852
	\$ 4,781,191	\$ 589,139	\$ (81,531)	\$ 5,288,799

B. Proprietary Fund Type Fixed Assets

Proprietary fund type fixed assets and accumulated depreciation at year-end consisted of:

<u>Enterprise</u>	<u>June 30, 2000</u>
Equipment	\$ 138,930
Less: Accumulated Depreciation	(126,834)
Net Fixed Assets	\$ 12,096

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 7: NOTE DEBT**

The District's note activity, including amounts outstanding, interest rates, and the purpose for which the note was issued, is as follows:

	<u>Outstanding June 30, 1999</u>	<u>Additions</u>	<u>Outstanding Reductions</u>	<u>June 30, 2000</u>
Cash flow borrowing note, 4.14% interest rate	\$ <u>0</u>	\$ <u>634,000</u>	\$ <u>(634,000)</u>	\$ <u>0</u>

The District borrowed money for the purpose of cash flow.

**NOTE 8: LONG-TERM OBLIGATIONS**

The changes in the District's general long-term obligations during the fiscal year 2000 were as follows:

	<u>Outstanding June 30, 1999</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding June 30, 2000</u>
Energy Conservation Notes:				
5.5% interest rate, due June 1, 2004	\$ 435,000	\$ 0	\$ (80,000)	\$ 355,000
5.125% interest rate, due December 1, 2013	0	287,000	(5,000)	282,000
Intergovernmental payable	56,417	50,467	(56,417)	50,467
Capital lease payable	11,905	16,350	(6,559)	21,696
Compensated absences	<u>443,785</u>	<u>599,116</u>	<u>(443,785)</u>	<u>599,116</u>
	<u>\$ 947,107</u>	<u>\$ 952,933</u>	<u>\$ (591,761)</u>	<u>\$ 1,308,279</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.

The annual requirement to retire general obligation debt, including notes outstanding as of June 30, 2000, were as follows:

Year Ending June 30,		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001		\$ 99,150	\$ 33,615	\$ 132,765
2002		90,000	28,449	118,449
2003		97,500	23,454	120,954
2004		105,000	18,055	123,055
2005		12,500	12,254	24,754
2006-2010		100,000	48,137	148,137
2011-2013		<u>132,850</u>	<u>14,733</u>	<u>147,583</u>
Total		<u>\$ 637,000</u>	<u>\$ 178,697</u>	<u>\$ 815,697</u>

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000

NOTE 9: CAPITAL LEASES

The District has entered into a capitalized lease for a copier. The lease meets 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 expenditures in the combined financial statements for the government funds.

General fixed assets consisting of copiers have been capitalized in the general fixed assets account group in the amount of \$41,350. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligation account group. Principal payments in fiscal year 2000 totaled \$6,559 in the governmental funds.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2000:

Year Ending June 30,	2001	General Long-Term Obligations Account Group
		\$ 10,131
	2002	4,630
	2003	4,130
	2004	4,130
	2005	<u>2,753</u>
Total minimum lease payments		25,774
Less: Amount representing interest at the District's incremental borrowing rate of interest		<u>4,078</u>
Present value of minimum lease payments		<u>\$ 21,696</u>

NOTE 10: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the District. The Ashland and Wayne County Auditors are responsible for assessing and remitting these property taxes to the District.

## HILLSDALE LOCAL SCHOOL DISTRICT

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2000

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NOTE 10: PROPERTY TAXES (Continued)

Real property taxes are based on assessed value equal to 35% of appraisal value. The Ashland and Wayne County Auditors reappraise real property every six years with a triennial update, the last update for Ashland County was done in 1996, and Wayne County was done in 1995. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, real property taxes are billed semi-annually one year in arrears. The tax rates applied to real property collected in 1999 for Ashland and Wayne County before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$41.50 and \$49.50, respectively, per \$1,000 of valuation. The effective rates applied for Ashland County and Wayne County after adjustment for inflationary increases in property values was \$21.81 and \$28.21, respectively, per \$1,000 of assessed valuation for residential and agricultural real property, and \$29.45 and \$37.27, respectively, per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate for Ashland County and Wayne County applied to tangible personal property for the current year ended December 31, 1999 was \$41.50 and \$49.50, respectively, per \$1,000 of valuation.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable at June 30, 2000. 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 as an advance at June 30 is recognized as revenue. The amount available to the District as an advance at June 30, 2000, was \$386,075.

NOTE 11: 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.

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

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NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14%; 10.5% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2000, 1999 and 1998 were \$118,944, \$130,368 and \$129,040, respectively. 50% has been contributed for fiscal year 2000 and 100% for the fiscal years 1999 and 1998. \$59,460, representing the unpaid contribution for fiscal year 2000, 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.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 12.0% 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, 2000, 1999 and 1998 were \$505,200, \$495,840 and \$469,272, respectively; 83% has been contributed for fiscal year 2000 and 100% for the fiscal years 1999 and 1998. \$84,200, representing the unpaid contribution for fiscal year 2000, 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, 2000, 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 GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

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**NOTE 12: 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 obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 3.5% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District, this amount equaled \$120,650 during the 2000 fiscal year. For the fiscal year ended June 30, 1999, the net health care costs paid by STRS were \$249,929,000.

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.

For this fiscal year, employer contributions to fund health care benefits were 6.30% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal year 1999, the minimum pay has been established at \$12,400. For the District the amount to fund healthcare benefits, including surcharge, equaled \$75,472 during the 2000 fiscal year. The number of participants currently receiving health care benefits is 51,000. For the fiscal year ended June 30, 1999, net health care costs by School Employees Retirement System were \$126,380,984.

**NOTE 13: NON-CASH TRANSACTIONS**

The District received food commodities for its food service obligations. The revenue recognized in grant income from the non-cash commodities was \$31,060



**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

NOTE 14: INTERFUND ACTIVITY

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

<u>Fund Type/Fund</u>	Interfund	
	Receivable	Payable
General Fund	\$ 20,400	\$ 0
Enterprise Fund:		
Food Service	0	16,500
Uniform Service	0	3,900
Total all funds	\$ 20,400	\$ 20,400

NOTE 15: CONTRACTUAL COMMITMENTS

As of June 30, 2000, the District had contractual commitments for the Hillsdale High School new parking lot and sealing of parking lot in front of the high school.

	Contractual Commitment	Balance Expended	6/30/2000
	TRI-B Construction	\$ 11,000	\$ 4,852
Sarver Paving Co.	12,750	0	12,750
	\$ 23,750	\$ 4,852	\$ 18,898

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

NOTE 16: STATUTORY RESERVES

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside cash balance as of				
June 30, 1999	\$ 0	\$ 0	\$ 35,618	\$ 35,618
Current year set-aside requirement	137,593	137,593	10,246	285,432
Current year offsets	0	(101,055)	0	(101,055)
Qualifying disbursements	(127,094)	(45,571)	0	(172,665)
 Total	 \$ 10,499	 \$ (9,033)	 \$ 45,864	 \$ 47,330
 Cash balance carried forward to FY 2001	 \$ 10,499	 \$ 0	 \$ 45,864	

A schedule of restricted assets at June 30, 2000 follows:

Amount restricted for textbooks	\$ 10,499
Amount restricted for budget stabilization	45,864
 Total restricted assets	 \$ 56,363

The current year set-aside requirement for the budget stabilization was \$45,864 less prior year's workers' compensation set-aside amounting to \$35,618, leaving the current year requirement of \$10,246.

Although the District had 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.

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 17: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The District maintains enterprise funds to account for the operation of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2000:

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$ 232,547	\$ 25,508	\$ 258,055
Operating Expenses, less Depreciation	323,269	21,663	344,932
Depreciation Expense	2,822	0	2,822
Operating Income (Loss)	(93,544)	3,845	(89,699)
Donated Commodities	31,060	0	31,060
Nonoperating Grants	60,160	0	60,160
Net Income (Loss)	(2,324)	3,845	1,521
Net Working Capital	(42,962)	13,932	(29,030)
Total Assets	36,685	18,248	54,933
Total Equity	(46,525)	13,932	(32,593)

**NOTES 18: 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 \$500 per incident on property and \$250 per incident on equipment. The District's vehicle insurance policy limit is \$1,000,000 with a \$250 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally, the District carries a \$2,000,000 blanket umbrella policy. The limits of this coverage are \$1,000,000 per occurrence and \$5,000,000 in aggregate.

**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 \$100,000 fidelity bond on the property insurance 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 School Board Association Group Rating System, an insurance purchasing pool. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

NOTES 18: RISK MANAGEMENT (Continued)

D. Employee Health Insurance

The District has established a limited risk management program for its medical insurance program. Premiums are paid into the self-insurance fund and are available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covers specific liability claims in excess of \$50,000. The liability for unpaid claims cost of \$107,436 is reported in the fund at June 30, 2000 in accordance with Government Accounting Standards Board Statement No. 10.

Changes in the fund's claims liability amount in 1999 and 2000 were:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2000	\$ <u>48,003</u>	\$ <u>661,107</u>	\$ <u>601,674</u>	\$ <u>107,436</u>
1999	\$ <u>149,555</u>	\$ <u>386,679</u>	\$ <u>488,231</u>	\$ <u>48,003</u>

NOTE 19: 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, 2000, the District paid approximately \$17,740.

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

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NOTE 19: JOINTLY GOVERNED ORGANIZATIONS (Continued)

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.

NOTE 20: 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, 2000.

B. Litigation

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

NOTE 21: SCHOOL FUNDING ISSUE

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio School Funding Plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program," which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 2000, the District received \$3,385,284 of school foundation support for its General Fund.

**HILLSDALE LOCAL SCHOOL DISTRICT**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

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NOTE 21: SCHOOL FUNDING ISSUE (Continued)

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

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

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

# Rea & Associates, Inc.

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## ACCOUNTANTS AND BUSINESS CONSULTANTS

December 5, 2000

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

Independent Auditor's Report on Compliance and Internal Control  
Over Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

We have audited the financial statements of Hillsdale Local School District (the "District") as of and for the year ended June 30, 2000, and have issued our report thereon dated December 5, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

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

### 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 structure over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*Rea & Associates, Inc.*



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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800-282-0370  
Facsimile 614-466-4490

**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  
JANUARY 16, 2001**