

HILLSDALE LOCAL SCHOOL DISTRICT



**AUDITED GENERAL PURPOSE
FINANCIAL STATEMENTS
JUNE 30, 2001**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1st Floor
Columbus, Ohio 43215

Telephone 614-466-4514
800-282-0370

Facsimile 614-728-7398

Board of Education
Hillsdale Local School District

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, 2000 through June 30, 2001. 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, 2001

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

JUNE 30, 2001

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 21, 2001

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, 2001, 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 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 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, 2001, 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated November 21, 2001 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, 2001

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,034,094	\$ 132,330	\$ 91,817
Restricted Equity in Pooled Cash	35,618	0	0
Cash in Segregated Accounts	0	0	0
Investment	0	0	0
Receivables:			
Taxes	3,370,001	0	104,227
Accounts	0	480	0
Interfund	17,383	0	0
Intergovernmental Receivable	4,351	0	0
Prepaid Items	63,321	0	0
Inventory	0	0	0
Fixed Assets (Net)	0	0	0
Total Assets	4,524,768	132,810	196,044
<u>Other Debits</u>			
Amount to be Provided from General			
Government Resources	0	0	0
Total Other Debits	0	0	0
Total Assets and Other Debits	\$ 4,524,768	\$ 132,810	\$ 196,044
<u>Liabilities</u>			
Accounts Payable	\$ 10,492	\$ 2,681	\$ 0
Accrued Wages and Benefits	607,088	14,711	0
Compensated Absences Payable	35,802	0	0
Interfund Payable	0	0	0
Intergovernmental Payable	103,400	286	0
Deferred Revenue	2,972,355	0	91,929
Due to Students	0	0	0
Notes Payable	0	0	0
Claims Payable	0	0	0
Capital Lease Payable	0	0	0
Total Liabilities	3,729,137	17,678	91,929
<u>Fund Equity and Other Credits</u>			
Investment in General Fixed Assets	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance (Deficit):			
Reserved for Encumbrances	128,516	14,152	34,806
Reserved for Endowment	0	0	0
Reserved for Tax Revenue not Available			
for Appropriation	397,646	0	12,298
Reserved for BWC Refund	35,618	0	0
Unreserved:			
Undesignated	233,851	100,980	57,011
Total Fund Equity and Other Credits	795,631	115,132	104,115
Total Liabilities, Fund Equity and Other Credits	\$ 4,524,768	\$ 132,810	\$ 196,044

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	
\$ 35,456	\$ 1,180	\$ 28,013	\$ 0	\$ 0	\$ 1,322,890
0	0	0	0	0	35,618
0	0	2,820	0	0	2,820
0	0	5,014	0	0	5,014
0	0	0	0	0	3,474,228
2,278	0	0	0	0	2,758
0	0	0	0	0	17,383
0	0	0	0	0	4,351
5,344	0	0	0	0	68,665
12,668	0	0	0	0	12,668
9,456	0	0	5,641,266	0	5,650,722
65,202	1,180	35,847	5,641,266	0	10,597,117
0	0	0	0	1,250,950	1,250,950
0	0	0	0	1,250,950	1,250,950
<u>\$ 65,202</u>	<u>\$ 1,180</u>	<u>\$ 35,847</u>	<u>\$ 5,641,266</u>	<u>\$ 1,250,950</u>	<u>\$ 11,848,067</u>
\$ 5,410	\$ 0	\$ 370	\$ 0	\$ 0	\$ 18,953
22,213	0	0	0	0	644,012
9,379	0	0	0	629,402	674,583
17,383	0	0	0	0	17,383
12,982	288,090	0	0	42,823	447,581
7,015	63,035	0	0	0	3,134,334
0	0	26,382	0	0	26,382
0	0	0	0	537,850	537,850
0	80,638	0	0	0	80,638
0	0	0	0	40,875	40,875
74,382	431,763	26,752	0	1,250,950	5,622,591
0	0	0	5,641,266	0	5,641,266
(9,180)	(430,583)	0	0	0	(439,763)
0	0	0	0	0	177,474
0	0	7,000	0	0	7,000
0	0	0	0	0	409,944
0	0	0	0	0	35,618
0	0	2,095	0	0	393,937
(9,180)	(430,583)	9,095	5,641,266	0	6,225,476
<u>\$ 65,202</u>	<u>\$ 1,180</u>	<u>\$ 35,847</u>	<u>\$ 5,641,266</u>	<u>\$ 1,250,950</u>	<u>\$ 11,848,067</u>

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HILLSDALE LOCAL SCHOOL DISTRICT

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

For the Year Ended June 30, 2001

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Taxes	\$ 3,108,822	\$ 0	\$ 0	\$ 92,146	\$ 3,200,968
Intergovernmental	3,653,409	236,032	0	57,909	3,947,350
Investment Income	85,202	0	0	0	85,202
Tuition and Fees	330,132	0	0	0	330,132
Extracurricular Activities	0	173,759	0	0	173,759
Other Revenue	25,457	79,664	0	0	105,121
Total Revenues	7,203,022	489,455	0	150,055	7,842,532
Expenditures					
Current:					
Instruction:					
Regular	3,391,473	14,982	0	87,033	3,493,488
Special	324,308	106,987	0	0	431,295
Vocational	325,241	0	0	0	325,241
Other	214,066	0	0	0	214,066
Support Services:					
Pupils	242,332	49,160	0	0	291,492
Instructional Staff	244,582	18,062	0	0	262,644
Board of Education	30,696	0	0	0	30,696
Administration	496,194	79,691	0	0	575,885
Fiscal	225,271	0	0	1,987	227,258
Operation and Maintenance of Plant	427,029	1,183	0	0	428,212
Pupil Transportation	484,861	109	0	0	484,970
Operation of Non-Instructional Services	739	0	0	0	739
Extracurricular Activities	157,650	176,254	0	4,415	338,319
Capital Outlay	50,544	0	0	33,357	83,901
Debt Service:					
Principal Retirement	7,640	0	99,150	0	106,790
Interest and Fiscal Charges	3,111	0	33,615	0	36,726
Total Expenditures	6,625,737	446,428	132,765	126,792	7,331,722
Excess of Revenues Over (Under) Expenditures	577,285	43,027	(132,765)	23,263	510,810
Other Financing Sources (Uses)					
Proceeds from Capital Lease	31,645	0	0	0	31,645
Proceeds from Sales of Fixed Assets	10,192	0	0	0	10,192
Operating Transfers In	0	0	132,765	0	132,765
Operating Transfers Out	(91,765)	0	0	(41,000)	(132,765)
Total Other Financing Sources (Uses)	(49,928)	0	132,765	(41,000)	41,837
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	527,357	43,027	0	(17,737)	552,647
Fund Balance at Beginning of Year	268,274	72,105	0	121,852	462,231
Fund Balance at End of Year	\$ 795,631	\$ 115,132	\$ 0	\$ 104,115	\$ 1,014,878

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, 2001

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 3,085,669	\$ 3,085,669	\$ 0
Intergovernmental	3,649,057	3,649,058	1
Investment Income	85,203	85,202	(1)
Tuition and Fees	330,132	330,132	0
Extracurricular Activities	0	0	0
Other Revenue	25,456	25,457	1
Total Revenues	<u>7,175,517</u>	<u>7,175,518</u>	<u>1</u>
Expenditures			
Current:			
Instruction	4,649,041	4,451,689	197,352
Support Services:			
Pupils	251,433	242,490	8,943
Instructional Staff	256,569	245,071	11,498
Board of Education	55,316	31,844	23,472
Administration	542,127	519,571	22,556
Fiscal	236,073	227,017	9,056
Operation and Maintenance of Plant	527,604	459,148	68,456
Pupil Transportation	539,546	489,690	49,856
Operation of Non-Instructional Services	1,867	1,476	391
Extracurricular Activities	163,677	157,901	5,776
Capital Outlay	18,902	18,899	3
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	<u>7,242,155</u>	<u>6,844,796</u>	<u>397,359</u>
Excess of Revenues Over (Under) Expenditures	<u>(66,638)</u>	<u>330,722</u>	<u>397,360</u>
Other Financing Sources (Uses)			
Proceeds of Notes	0	0	0
Proceeds from Sale of Assets	10,192	10,192	0
Refund of Prior Year Expenditures	31,685	31,685	0
Refund of Prior Year Receipts	0	0	0
Advances In	20,400	20,400	0
Advances Out	(18,430)	(17,383)	1,047
Operating Transfers In	0	0	0
Operating Transfers Out	(91,765)	(91,765)	0
Total Other Financing Sources (Uses)	<u>(47,918)</u>	<u>(46,871)</u>	<u>1,047</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(114,556)</u>	<u>283,851</u>	<u>398,407</u>
Fund Balance at Beginning of Year	524,984	524,984	0
Prior Year Encumbrances Appropriated	<u>142,636</u>	<u>142,636</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 553,064</u>	<u>\$ 951,471</u>	<u>\$ 398,407</u>

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
239,032	239,032	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
175,218	175,218	0	0	0	0
79,662	79,664	2	0	0	0
<u>493,912</u>	<u>493,914</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>
171,126	125,208	45,918	0	0	0
51,244	51,335	(91)	0	0	0
35,223	21,128	14,095	0	0	0
0	0	0	0	0	0
87,965	87,756	209	0	0	0
0	0	0	0	0	0
1,331	1,331	0	0	0	0
1,749	109	1,640	0	0	0
0	0	0	0	0	0
193,114	179,832	13,282	0	0	0
0	0	0	0	0	0
0	0	0	99,150	99,150	0
0	0	0	33,615	33,615	0
<u>541,752</u>	<u>466,699</u>	<u>75,053</u>	<u>132,765</u>	<u>132,765</u>	<u>0</u>
<u>(47,840)</u>	<u>27,215</u>	<u>75,055</u>	<u>(132,765)</u>	<u>(132,765)</u>	<u>0</u>
0	0	0	0	0	0
0	0	0	0	0	0
167	167	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	132,765	132,765	0
0	0	0	0	0	0
<u>167</u>	<u>167</u>	<u>0</u>	<u>132,765</u>	<u>132,765</u>	<u>0</u>
(47,673)	27,382	75,055	0	0	0
81,307	81,307	0	0	0	0
10,195	10,195	0	0	0	0
<u>\$ 43,829</u>	<u>\$ 118,884</u>	<u>\$ 75,055</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, 2001

	Capital Projects Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 91,430	\$ 91,430	\$ 0
Intergovernmental	57,909	57,909	0
Investment Income	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Other Revenue	0	0	0
Total Revenues	<u>149,339</u>	<u>149,339</u>	<u>0</u>
Expenditures			
Current:			
Instruction	132,556	96,803	35,753
Support Services:			
Pupils	0	0	0
Instructional Staff	13,583	0	13,583
Board of Education	0	0	0
Administration	0	0	0
Fiscal	1,900	1,987	(87)
Operation and Maintenance of Plant	0	0	0
Pupil Transportation	0	0	0
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	5,678	5,090	588
Capital Outlay	75,232	68,163	7,069
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	<u>228,949</u>	<u>172,043</u>	<u>56,906</u>
Excess of Revenues Over (Under) Expenditures	<u>(79,610)</u>	<u>(22,704)</u>	<u>56,906</u>
Other Financing Sources (Uses)			
Proceeds of Notes	0	0	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
Total Other Financing Sources (Uses)	<u>(41,000)</u>	<u>(41,000)</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(120,610)</u>	<u>(63,704)</u>	<u>56,906</u>
Fund Balance at Beginning of Year	53,326	53,326	0
Prior Year Encumbrances Appropriated	<u>67,389</u>	<u>67,389</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 105</u>	<u>\$ 57,011</u>	<u>\$ 56,906</u>

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

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 3,177,099	\$ 3,177,099	\$ 0
3,945,998	3,945,999	1
85,203	85,202	(1)
330,132	330,132	0
175,218	175,218	0
105,118	105,121	3
<u>7,818,768</u>	<u>7,818,771</u>	<u>3</u>
4,952,723	4,673,700	279,023
302,677	293,825	8,852
305,375	266,199	39,176
55,316	31,844	23,472
630,092	607,327	22,765
237,973	229,004	8,969
528,935	460,479	68,456
541,295	489,799	51,496
1,867	1,476	391
362,469	342,823	19,646
94,134	87,062	7,072
99,150	99,150	0
33,615	33,615	0
<u>8,145,621</u>	<u>7,616,303</u>	<u>529,318</u>
<u>(326,853)</u>	<u>202,468</u>	<u>529,321</u>
0	0	0
10,192	10,192	0
31,852	31,852	0
0	0	0
20,400	20,400	0
(18,430)	(17,383)	1,047
132,765	132,765	0
(132,765)	(132,765)	0
<u>44,014</u>	<u>45,061</u>	<u>1,047</u>
(282,839)	247,529	530,368
659,617	659,617	0
220,220	220,220	0
<u>\$ 596,998</u>	<u>\$ 1,127,366</u>	<u>\$ 530,368</u>

HILLSDALE LOCAL SCHOOL DISTRICT

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

All Proprietary Fund Types and Nonexpendable Trust Funds

For the Year Ended June 30, 2001

	Proprietary Fund Types			Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
<u>Operating Revenues</u>				
Sales	\$ 276,311	\$ 0	\$ 0	\$ 276,311
Charges for Services	0	633,639	0	633,639
Investment Income	0	0	462	462
Other Operating Revenues	0	565	0	565
<i>Total Operating Revenues</i>	<u>276,311</u>	<u>634,204</u>	<u>462</u>	<u>910,977</u>
<u>Operating Expenses</u>				
Salaries	111,701	0	0	111,701
Fringe Benefits	59,869	0	0	59,869
Purchased Services	8,373	136,879	0	145,252
Materials and Supplies	162,229	565	0	162,794
Depreciation	2,640	0	0	2,640
Claims Expense	0	757,071	0	757,071
Other Operating Expenses	0	0	475	475
<i>Total Operating Expenses</i>	<u>344,812</u>	<u>894,515</u>	<u>475</u>	<u>1,239,802</u>
Operating Loss	(68,501)	(260,311)	(13)	(328,825)
<u>Non-Operating Revenues</u>				
Operating Grants	63,359	0	0	63,359
Federal Donated Commodities	28,555	0	0	28,555
Investment Income	0	7,851	0	7,851
<i>Total Non-Operating Revenues</i>	<u>91,914</u>	<u>7,851</u>	<u>0</u>	<u>99,765</u>
Net Income (Loss)	23,413	(252,460)	(13)	(229,060)
Retained Earnings/Fund Balance (Deficit) at Beginning of Year	<u>(32,593)</u>	<u>(178,123)</u>	<u>9,108</u>	<u>(201,608)</u>
Retained Earnings/Fund Balance (Deficit) at End of Year	<u>\$ (9,180)</u>	<u>\$ (430,583)</u>	<u>\$ 9,095</u>	<u>\$ (430,668)</u>

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, 2001

	Proprietary Fund Types		Nonexpendable Trust
	Enterprise	Internal Service	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:			
<u>Cash Flows From Operating Activities</u>			
Cash Received from Customers	\$ 274,033	\$ 650,099	\$ 0
Transactions with Other Funds	(3,017)	0	0
Interest Received	0	0	462
Cash Paid for Goods and Services	(136,531)	(137,444)	(475)
Cash Paid to Employees	(183,635)	0	0
Cash Paid for Claims and Expenses	0	(520,506)	0
Net Cash Used for Operating Activities	(49,150)	(7,851)	(13)
<u>Cash Flows From Non-Capital Financing Activities</u>			
Grants	63,359	0	0
Net Cash Provided by Non-Capital Activities	63,359	0	0
<u>Cash Flows From Investing Activities</u>			
Interest Income	0	7,851	0
Net Cash Provided by Capital Activities	0	7,851	0
Net Increase (Decrease) in Cash and Cash Equivalents	14,209	0	(13)
Cash and Cash Equivalents at Beginning of Year	21,247	1,180	9,108
Cash and Cash Equivalents at End of Year	\$ 35,456	\$ 1,180	\$ 9,095
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</u>			
Operating Loss	\$ (68,501)	\$ (260,311)	\$ (13)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:			
Depreciation	2,640	0	0
Donated Commodities Used During Year	28,555	0	0
(Increase) Decrease in Assets:			
Accounts Receivable	(2,278)	0	0
Inventory	5,309	0	0
Prepaid Items	(1,731)	0	0
Increase (Decrease) in Liabilities:			
Accounts Payable	4,994	0	0
Intergovernmental Payable	0	263,363	0
Accrued Wages and Benefits	(1,629)	0	0
Compensated Absences Payable	(6,280)	0	0
Due to Other Governments	(2,425)	0	0
Interfund Payable	(3,017)	0	0
Claims Payable	0	(26,798)	0
Deferred Revenue	(4,787)	15,895	0
Total Adjustments	19,351	252,460	0
Net Cash Used for Operating Activities	\$ (49,150)	\$ (7,851)	\$ (13)
<u>Reconciliation of Cash and Cash Equivalents to the Balance Sheet</u>			
Trust and Agency			\$ 35,847
Less: Agency Funds			26,752
Nonexpendable Trust Fund			<u>\$ 9,095</u>

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

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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, 2000, was 1,077. The District employs 79 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 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

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, 2001

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 and the expendable trust funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. 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 the pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 10). Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred revenue 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, 2001, but which are levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. 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 use of 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:

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 nonexpendable trust funds.

Proprietary Fund Types

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and the nonexpendable trust fund. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue. 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 fund types 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 - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other governmental units, on a cost-reimbursement basis.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 types.

Agency Funds – The 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.

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 is 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 is 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.

Although only the governmental funds are being reported, all funds, except agency 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.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2001, investments were limited to STAR Ohio and Certificates of Deposit. 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 2001 amounted to \$85,202, which includes \$48,416 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.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2001. 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, 2001.

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 /instruction materials reserve, and capital maintenance reserve. These reserves are required by State statute. The BWC refund reserve can be used only for purposes specified by the statute. The capital maintenance reserve and textbook/instruction materials reserve can only be used for capital outlay expenditure and instructional materials and equipment, respectively. During fiscal year 2001, 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.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2001 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.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 BWC refund. 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

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Reimbursable Grants

Special Revenue Funds:

Education Management Information Systems
Safe School Help
Line Grant
Ohio Reads
School Net Professional Development
Interactive Video Distance Learning
Conflict Management Grant
Library Science Technology Grant
Title I
Title II
Title VI
Title VI-B
Title VI-B
Title VI-K
Drug-Free Schools
Teacher Development Block Grant

Capital Projects Funds:

School Net
Power Up

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 48% of the District's operating revenue during the 2001 fiscal year.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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: CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2001, the District has implemented GASB Statement No. 33, "Accounting for Financial Reporting for Nonexchange Transactions." The statement established accounting and reporting guidelines for governments' decisions about when (in the fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. The implementation of GASB Statement No. 33 did not have a material effect on fund balance/retained earnings as it was previously reported as of June 30, 2000.

NOTE 4: 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 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 and Actual (Non-GAAP Basis) - All Governmental Fund Types" do not include July 1, 2000 unencumbered fund balances. However, those fund balances are available for appropriations.

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

NOTE 4: BUDGETARY PROCESS (Continued)

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 and Actual (Non-GAAP Basis) - 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 and Actual (Non-GAAP Basis) - 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:

- 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).

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 4: BUDGETARY PROCESS (Continued)

- 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 Revenue Over Expenditures and Other
Sources (Uses) Reconciliation of Budget Basis to GAAP Basis**

	General Fund	Special Revenue Fund	Capital Projects Fund
Budgetary Basis	\$ 283,851	\$ 27,382	\$ (63,704)
Encumbrances	118,243	13,446	34,806
Revenue accruals	7,064	(4,626)	716
Expenditure accruals	118,199	6,825	10,445
GAAP Basis	\$ 527,357	\$ 43,027	\$ (17,737)

NOTE 5: ACCOUNTABILITY AND COMPLIANCE

At June 30, 2001, the following funds had a deficit fund balance: Food Service Enterprise Fund - \$30,550; Self-Insurance Internal Service Fund - \$430,583, 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, 2001

NOTE 6: 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, 2001

NOTE 6: 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 (\$80,769), which includes petty cash and cash on-hand in the amount of \$125, and the bank balance was \$189,159. Of the bank balance,

1. \$105,014 was covered by federal depository insurance, and
2. \$84,145 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for deposit of money has been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

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 \$(288,090). 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 \$1,447,111. 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, 2001**

NOTE 6: 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	\$ 1,361,328	\$ 5,014
Investments which are part of cash management pool:		
STAR Ohio	(1,447,111)	1,447,111
Certificate of Deposit	5,014	(5,014)
GASB Statement No. 3	\$ (80,769)	\$ 1,447,111

NOTE 7: FIXED ASSETS AND DEPRECIATION

A. General Fixed Assets Account Group

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

	Restated Balance <u>July 1, 2000</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2001</u>
Land and improvements	\$ 227,735	\$ 0	\$ 0	\$ 227,735
Buildings and improvements	2,797,572	28,196	0	2,825,768
Furniture and equipment	1,979,162	98,010	(32,099)	2,045,073
Vehicles	667,946	74,652	(199,908)	542,690
Construction in progress	4,852	0	(4,852)	0
	\$ 5,677,267	\$ 200,858	\$ (236,859)	\$ 5,641,266

The July 1, 2000 balances for buildings and improvements and furniture and equipment of \$2,448,306 and \$1,939,960, respectively, have been restated to record additions of \$349,266 and \$39,202, respectively, not previously recorded.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 7: FIXED ASSETS AND DEPRECIATION (Continued)

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, 2001</u>
Equipment	\$ 136,403
Less: Accumulated Depreciation	<u>(126,947)</u>
Net Fixed Assets	<u>\$ 9,456</u>

NOTE 8: LONG-TERM OBLIGATIONS

The changes in the District's general long-term obligations during the fiscal year 2001 were as follows:

	<u>Outstanding June 30, 2000</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding June 30, 2001</u>
Energy Conservation Notes:				
5.5% interest rate, due June 1, 2004	\$ 355,000	\$ 0	\$ (85,000)	\$ 270,000
5.125% interest rate, due December 1, 2013	282,000	0	(14,150)	267,850
Intergovernmental payable	50,467	42,823	(50,467)	42,823
Capital lease payable	21,696	31,645	(12,466)	40,875
Compensated absences	<u>599,116</u>	<u>629,402</u>	<u>(599,116)</u>	<u>629,402</u>
	<u>\$ 1,308,279</u>	<u>\$ 703,870</u>	<u>\$ (761,199)</u>	<u>\$ 1,250,950</u>

Capital lease reductions of \$12,466 is different than the general fund principal retirement amount of \$7,640. The \$4,826 difference is the balance of a copier lease that was traded in on a new copier lease.

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.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 8: LONG-TERM OBLIGATIONS (Continued)

The annual requirement to retire general obligation debt, including notes outstanding as of June 30, 2001, were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30, 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	15,000	11,549	26,549
2007-2011	112,500	42,691	155,191
2012-2014	<u>105,350</u>	<u>8,629</u>	<u>113,979</u>
Total	<u>\$ 537,850</u>	<u>\$ 145,081</u>	<u>\$ 682,931</u>

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 and postage machine have been capitalized in the general fixed assets account group in the amount of \$47,995. 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 2001 totaled \$12,466 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, 2001:

	<u>General Long-Term Obligations Account Group</u>
Year Ending June 30, 2002	\$ 11,723
2003	11,723
2004	11,723
2005	10,346
2006	3,003
2005	<u>177</u>
Total minimum lease payments	48,695
Less: Amount representing interest at the District's incremental borrowing rate of interest	<u>7,820</u>
Present value of minimum lease payments	<u>\$ 40,875</u>

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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.

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 2000 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 \$49.40 per \$1,000 of valuation. The effective rates applied for Ashland County and Wayne County after adjustment for inflationary increases in property values was \$28.15 per \$1,000 of assessed valuation for residential and agricultural real property, and \$37.17 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, 2000 was \$49.40 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, 2001. 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, 2001, was \$409,944.

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, 2001**

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, 2001, 2000 and 1999 were \$103,248, \$118,944 and \$130,368, respectively. 50% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$51,624, representing the unpaid contribution for fiscal year 2001, 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%; 10.5% 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, 2001, 2000 and 1999 were \$479,880, \$505,200 and \$495,840, respectively; 83% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$79,978, representing the unpaid contribution for fiscal year 2001, 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, 2001, 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, 2001

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 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, 2001, the STRS Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$159,582 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000 (the latest information available), the balance in the fund was \$3.419 billion. For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 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, 2001, employer contributions to fund health care benefits were 8.45% of covered payroll, an increase from 6.3% for fiscal year 2001. 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 2001, the minimum pay was established at \$12,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$79,737.

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, 2000 (the latest information available), were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000 (the latest information possible), SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

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 \$28,555.

NOTE 14: INTERFUND ACTIVITY

As of June 30, 2001, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	Interfund	
	Receivable	Payable
General Fund	\$ 17,383	\$ 0
Enterprise Fund:		
Food Service	0	13,700
Uniform Service	0	3,683
Total all funds	\$ 17,383	\$ 17,383

NOTE 15: 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, 2001 the reserve activity was as follows:

	Textbooks	Capital Acquisition	BWC Refund	Totals
Set-aside cash balance as of				
June 30, 2000	\$ 10,499	\$ 0	\$ 45,864	\$ 56,363
Current year set-aside requirement	157,949	157,949	0	315,898
Current year offsets	0	(99,585)	0	(99,585)
Current year qualifying disbursements	(269,713)	(74,714)	0	(344,427)
Amount returned to General Fund	0	0	(10,246)	(10,246)
Total	\$ (101,265)	\$ (16,350)	\$ 35,618	\$ (81,997)
Cash balance carried forward to FY 2002	\$ 0	\$ 0	\$ 35,618	

HILLSDALE LOCAL SCHOOL DISTRICT

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 15: STATUTORY RESERVES (Continued)

Effective April 10, 2001, 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; however, the requirement is no longer mandatory. Monies in the budget reserve set-aside as of April 10, 2001 are classified in two categories: (1) Bureau of Workers' Compensation (BWC) refunds and (2) the balance of the reserve, which does not represent BWC refunds. The statute includes specific purposes for which the monies representing BWC refunds can be used. The monies which do not represent BWC refunds may be left in the budget reserve set-aside, transferred to the Classroom Facilities fund, or returned to the General Fund and used at the discretion of the District's Board of Education.

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.

A schedule of the restricted assets at June 30, 2001 follows:

Amount restricted for BWC Refund Reserve	<u>\$ 35,618</u>
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NOTE 16: 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, 2001:

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$ 243,984	\$ 32,327	\$ 276,311
Operating expenses, less depreciation	317,283	24,889	342,172
Depreciation expense	2,640	0	2,640
Operating income (loss)	(75,939)	7,438	(68,501)
Donated commodities	28,555	0	28,555
Nonoperating grants	63,359	0	63,359
Net income (loss)	15,975	7,438	23,413
Net working capital	(30,627)	21,370	(9,257)
Total assets	40,044	25,158	65,202
Total equity	(30,550)	21,370	(9,180)

HILLSDALE LOCAL SCHOOL DISTRICT

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

NOTES 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 \$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. 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.

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.

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 \$80,638 reported in the internal service fund at June 30, 2001 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 GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTES 17: RISK MANAGEMENT (Continued)

Changes in the fund's claims liability amount in 2000 and 2001 were:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2001	\$ <u>107,436</u>	\$ <u>520,506</u>	\$ <u>547,304</u>	\$ <u>80,638</u>
2000	\$ <u>48,003</u>	\$ <u>661,107</u>	\$ <u>601,674</u>	\$ <u>107,436</u>

The District's claims paid by the OME-RESA Self-Insurance Plan exceeded premiums received from the District. At June 30, 2001, the District owes OME-RESA Self-Insurance Plan \$288,090. Effective July 1, 2001, 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 OME-RESA Self-Insurance Plan 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, 2001, the District paid approximately \$30,292.

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 GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 2001

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, 2001.

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 20: STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 21, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

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

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 21, 2001

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, 2001, and have issued our report thereon dated November 21, 2001. 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.

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

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
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 15, 2002**