Hillsboro City School District

Highland County

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, INC. 528 South West Street, P.O. Box 687 Piketon, Ohio 45661

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Board of Education Hillsboro City School District 338 West Main Street Hillsboro, Ohio 45133

We have reviewed the *Independent Auditor's Report* of the Hillsboro City School District, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 Hillsboro City School District is responsible for compliance with these laws and regulations.

Butty Montgomery

May 9, 2006

Auditor of State



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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board Hillsboro City School District 338 West Main Street Hillsboro, Ohio 45133

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Governmental 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof 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 have also issued our report dated March 31, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the Board Hillsboro City School District Independent Auditor's Report Page 2

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 10 and 44 through 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 17, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosure and GASB Technical Bulletin No. 2004-2, Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employees.

Balestra, Harr & Scherer, CPAs, Inc.

Balistra, Harr & Scheru

March 31, 2006

HILLSBORO CITY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2005

(Unaudited)

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets decreased \$811,100 represents a 8% decrease from 2004.
- General revenues accounted for \$18,811,557 in revenue or 79% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,917,073 or 21% of total revenues of \$23,728,630.
- Total assets of governmental activities decreased by \$1,722,318 as taxes receivable decreased by \$857,684 while cash and other receivables decreased by \$2,035,974 and capital assets increased by \$1,171,933.
- The District had \$24,539,730 in expenses related to governmental activities; \$4,917,073 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$18,811,557 were also used to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

Governmental Activities – Most of the District's programs and services are reported here including
instruction, support services, operation of non-instructional services, extracurricular activities and
interest and fiscal changes.

Fund Financial Statements

The analysis of the District's major funds are presented in the Fund Financial Statements. Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

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

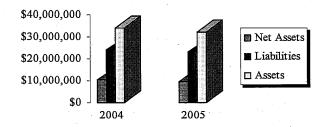
The District as a Whole

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

Table 1 provides a summary of the District's net assets for 2004 compared to 2005:

Table 1 Net Assets

	Governmental Activities		
	2004 Restated	2005	
Assets			
Current Assets	\$14,690,676	\$11,796,425	
Capital Assets	19,414,205	20,586,138	
Total Assets	34,104,881	32,382,563	
Liabilities			
Long-Term Liabilities	10,675,830	10,303,500	
Other Liabilities	13,227,008	12,688,120	
Total Liabilities	23,902,838	22,991,620	
Net Assets			
Invested in Capital			
Assets Net of Debt	6,512,906	7,931,138	
Restricted	4,447,634	2,705,646	
Unrestricted	(758,497)	(1,245,841)	
Total Net Assets	\$10,202,043	\$9,390,943	



Over time, assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$9,390,943.

At year-end, capital assets represented 64% of total assets. Capital assets include land, construction in progress, buildings and improvements and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2005, was \$7,931,138. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,705,646, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Table 2 shows the change in net assets for fiscal year 2005.

Table 2 Changes in Net Assets

	Governmenta	1 Activities
	2004 Restated	2005
Revenues		
Program Revenues:	•	
Charges for Services	\$1,067,011	\$1,263,896
Operating Grants	3,181,175	3,616,936
Capital Grants	34,794	36,241
General Revenue:		
Income Taxes	2,003,539	2,124,949
Property Taxes	6,150,344	6,043,740
Grants and Entitlements	10,536,860	10,340,103
Other	408,676	302,765
Total Revenues	23,382,399	23,728,630
Program Expenses:		·
Instruction	13,670,688	13,258,225
Support Services:		
Pupil and Instructional Staff	2,856,523	2,997,775
General and School Administrative,		
Fiscal and Business	2,303,738	2,711,544
Operations and Maintenance	1,648,527	1,980,704
Pupil Transportation	1,292,041	1,355,696
Central	28,980	24,869
Operation of Non-Instructional Services	1,443,090	1,213,692
Extracurricular Activities	878,911	442,318
Interest and Fiscal Charges	547,288	554,907
Total Expenses	24,669,786	24,539,730
Change in Net Assets	(1,287,387)	(811,100)
Beginning Net Assets	11,489,430	10,202,043
Ending Net Assets	\$10,202,043	\$9,390,943

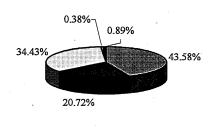
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general, special revenue and debt service purposes and grants and entitlements comprised 69% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 26% of revenue for governmental activities for the District in fiscal year 2005.

		Percent
Revenue Sources	2005	of Total
General Grants	\$10,340,103	43.58%
Program Revenues	4,917,073	20.72%
General Tax Revenues	8,168,689	34.43%
Investment Earnings	91,150	0.38%
Other Revenues	211,615	0.89%
	\$23,728,630	100.00%



Instruction comprises 54% of governmental program expenses. Support services expenses were 37% of governmental program expenses. All other expenses and interest expense was 9%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The District had a decrease in net assets mainly due to the decrease in the amount of property taxes available for advance from 2004 and a decrease in the amount of grant monies the District received from 2004.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services		
	2004	2005	2004	2005	
Instruction	\$13,670,688	\$13,258,225	(\$11,545,781)	(\$10,357,331)	
Support Services:					
Pupil and Instructional Staff	2,856,523	2,997,775	(2,036,170)	(2,413,702)	
General and School Administrative,					
Fiscal and Business	2,303,738	2,711,544	(2,182,002)	(2,610,022)	
Operations and Maintenance	1,648,527	1,980,704	(1,495,398)	(1,928,576)	
Pupil Transportation	1,292,041	1,355,696	(1,255,707)	(1,317,093)	
Central	28,980	24,869	(4,797)	1,346	
Operation of Non-Instructional Services	1,443,090	1,213,692	(860,035)	(197,255)	
Extracurricular Activities	878,911	442,318	(459,628)	(245,117)	
Interest and Fiscal Charges	547,288	554,907	(547,288)	(554,907)	
Total Expenses	\$24,669,786	\$24,539,730	(\$20,386,806)	(\$19,622,657)	

The District's Funds

The District has three major governmental funds: the General Fund, Debt Service Fund and Permanent Improvement Fund. Assets of the general fund comprised \$6,962,094 (59%), the debt service fund comprised \$1,593,873 (13%) and the permanent improvement fund comprised \$1,205,989 (10%) of the total \$11,833,314 governmental funds assets.

General Fund: Fund balance at June 30, 2005 was (\$1,155,169) a decrease in fund balance of \$765,655 from 2004. The decrease in fund balance was mainly due to the District's current year expenditures exceeding revenue.

Debt Service Fund: Fund balance at June 30, 2005 was (\$2,630,668) an increase of \$288,582 from 2004. The increase in fund balance was mainly due to the decrease in the amount of debt service (principal and interest) payments from 2004.

Permanent Improvement Fund: Fund balance at June 30, 2005 was \$1,188,154 a decrease of \$151,993 from 2004. The fund balance remained relatively consistent from 2004 to 2005.

General Fund Budgeting Highlights

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

The District amended its general fund budget once at the fiscal year end. The District revised the Budget to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$18,721,443, above original budget estimates of \$18,719,881. Of this \$1,562 difference, most was due to differences in estimates for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$856,503 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$20,586,138 invested in land, construction in progress, buildings and improvements, and equipment. Table 4 shows fiscal 2005 balances compared to fiscal 2004:

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

	Governmental Activities		
	2004 Restated	2005	
Land	\$1,522,499	\$1,522,499	
Construction in Progress	13,146,398	14,404,179	
Buildings and Improvements	3,218,425	3,112,731	
Equipment	1,526,883	1,546,729	
Total Net Capital Assets	\$19,414,205	\$20,586,138	

The increase in capital assets is mainly due to \$1,257,781 in construction in progress additions, offset by the recognition of \$433,174 in depreciation.

See notes to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2005, the District had \$9,405,000 in bonds payable, \$230,000 due within one year. Table 5 summarizes outstanding debt at year end.

Table 5
Outstanding Debt, at Year End

	Governmental Activities 2004	Governmental Activities 2005
Bonds Payable:		
School Improvement Bonds	 \$9,630,000	\$9,405,000
Energy Conservation	21,298	0
Total Outstanding Debt at Year End	<u>\$9,651,298</u>	\$9,405,000

See notes to the basic financial statements for further details on the District's long-term obligations.

For the Future

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not "equitable" nor "adequate". The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court's concerns.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeff Anderson, Treasurer at Hillsboro City School District, 338 West Main Street, Hillsboro, Ohio 45133.

	Governmental
	Activities
Assets:	
Equity in Pooled Cash and Investments	\$3,815,441
Restricted Cash and Investments	89,559
Receivables:	
Taxes	7,695,468
Accounts	54,167
Interest	5,052
Intergovernmental	132,424
Inventory	4,314
Nondepreciable Capital Assets	15,926,678
Depreciable Capital Assets, Net	4,659,460
Total Assets	32,382,563
Liabilities:	
Accounts Payable	239,411
Accrued Wages and Benefits	2,819,735
Retainage Payable	13,607
Accrued Interest Payable	81,047
Unearned Revenue	6,214,786
Claims Payable	69,534
General Obligation Notes Payable	3,250,000
Long-Term Liabilities:	
Due Within One Year	336,273
Due In More Than One Year	9,967,227
Total Liabilities	22,991,620
Net Assets:	
Invested in Capital Assets, Net of Related Debt	7,931,138
Restricted for:	
Special Revenue	691,997
Capital Projects	1,937,697
Set-Aside	75,952
Unrestricted	(1,245,841)
	(1,2,0,011)
Total Net Assets	\$9,390,943

			Program Revenues		Net (Expense) Revenue and Changes in Net Assets
÷.,		Charges for	Operating Grants	Capital Grants	Governmental
	Expenses	Services and Sales	and Contributions	and Contributions	Activities
Governmental Activities:					
Instruction:					
Regular	\$9,298,192	\$493,595	\$246,693	\$0	(\$8,557,904)
Special	2,095,357	10,992	844,920	0	(1,239,445)
Vocational	705,426	0	0	0	(705,426)
Other	1,159,250	0	1,304,694	0	145,444
Support Services:					
Pupil	1,105,046	44,211	328	0	(1,060,507)
Instructional Staff	1,892,729	17,524	522,010	0	(1,353,195)
General Administration	34,994	0	.0	0	(34,994)
School Administration	2,245,857	14,731	84,210	0	(2,146,916)
Fiscal	430,693	0	2,581	0	(428,112)
Operations and Maintenance	1,980,704	7,328	44,800	0	(1,928,576)
Pupil Transportation	1,355,696	0	2,362	36,241	(1,317,093)
Central	24,869	0	26,215	0	1,346
Operation of Non-Instructional Services	1,213,692	478,314	538,123	0	(197,255)
Extracurricular Activities	442,318	197,201	0	. 0	(245,117)
Interest and Fiscal Charges	554,907	0	0	0	(554,907)
Totals	\$24,539,730	\$1,263,896	\$3,616,936	\$36,241	(19,622,657)
		General Revenues: Income Taxes			2,124,949
		Property Taxes Levied	l for	•	2,124,747
		General Purposes	1101.		5,058,159
		Special Revenue Pur	noses		117,347
•		Debt Service Purpos			868,234
		Grants and Entitlemen		ecific Programs	10,340,103
•		Unrestricted Contribu	-	occine i rograms	3,600
·		Investment Earnings			91,150
		Other Revenues			208,015
		Total General Revenu	·		10 011 557
		TOTAL CELETAL REVEILE	ω		18,811,557
		Change in Net Assets	•		(811,100)
		Net Assets Beginning	of Year, Restated - Se	e Note 17	10,202,043
		Net Assets End of Yea	ar		\$9,390,943

Intergovernmental		General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Restricted Cash and Investments 75,952 0 0 13,607 89,559 Receivables: Taxes 6,517,777 1,048,193 0 129,498 7,695,468 Accounts 54,167 0 0 0 45,167 1 0 0 0 54,167 1 0 0 0 54,167 1 0 0 0 132,424 132,424 1132,424 1 1132,424 1 132,424 1132,424 1 112,424 1 10 0 0 0 7,586 76,300 1 10 1 132,424 132,424 1 132,424 1132,424 1132,424 1132,424 1132,424 1132,424 1132,424 1132,424 1 10 0 0 4,314 4,314 1 10 0 0 1,4314 4,314 1 134,14 4,314 4,314 1 134,14 4,314 1 134,14 4,314 4,314 4,244 1						
Receivables:	Equity in Pooled Cash and Investments	\$242,263	\$545,680	\$1,204,992	\$1,783,095	\$3,776,030
Taxes 6,517,777 1,048,193 0 129,498 7,695,468 Accounts 54,167 0 0 0 54,167 Interest 3,221 0 997 834 5,052 Intergovernmental 0 0 0 0 132,424 132,424 Interfund 68,714 0 0 0 4,314 4,314 Total Assets 6,962,094 1,593,873 1,205,989 2,071,358 11,833,314 Liabilities and Fund Balances: Liabilities 1 1,593,873 1,205,989 2,071,358 11,833,314 Accounts Payable 124,165 0 17,835 97,411 239,411 Accounts Payable 2,525,484 0 0 294,251 2,819,735 Compensated Absences 62,733 0 0 0 26,733 0 0 0 26,733 0 0 0 26,733 0 0 0 26,733 0 0 0 13,607 <td>Restricted Cash and Investments</td> <td>75,952</td> <td>0</td> <td>0</td> <td>13,607</td> <td>89,559</td>	Restricted Cash and Investments	75,952	0	0	13,607	89,559
Accounts	Receivables:			•		
Interest 3,221 0 997 834 5,052 Intergovernmental 0 0 0 0 132,424 132,424 Interfund 68,714 0 0 0 7,586 76,300 Inventory 0 0 0 0 4,314 4,314 Total Assets 6,962,094 1,593,873 1,205,989 2,071,358 11,833,314 Liabilities and Fund Balances: Liabilities: Accounts Payable 124,165 0 17,835 97,411 239,411 Accrued Wages and Benefits 2,525,484 0 0 0 294,251 2,819,735 Compensated Absences 62,733 0 0 0 294,251 2,819,735 Retainage Payable 0 0 0 0 13,607 13,607 Interfund Payable 0 0 0 0 13,607 13,607 Interfund Payable 0 0 0 13,007 13,607 Interfund Payable 0 0 0 133,045 6,512,467 General Obligation Notes Payable 0 3,250,000 Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances 154,440 0 0 0 388,554 542,994 Reserved for Inventory 0 0 0 0 388,554 542,994 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Property Tax Advances 386,956 73,652 0 8,986 36,595 Debt Served Undesignated, Reported in: General Fund (1,772,517) 0 0 0 0 0 75,952 Unreserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 0 0 0 0 0 0,000,000,000,000,000,	Taxes	6,517,777	1,048,193	0	129,498	7,695,468
Intergovernmental 0	Accounts	54,167	0	0	0	54,167
Interfund 68,714 0 0 7,586 76,300 Inventory 0 0 0 7,586 76,300 Inventory 0 0 0 4,514 4,314 Total Assets 6,962,094 1,593,873 1,205,989 2,071,358 11,833,314 Liabilities Accound Mages and Benefits Counts Payable 124,165 0 17,835 97,411 239,411 Accound Wages and Benefits 2,525,484 0 0 294,251 2,819,735 Compensated Absences 62,733 0 0 0 62,733 Retainage Payable 0 0 0 13,607	Interest	3,221	0	997	834	5,052
Inventory 0	Intergovernmental	0	0	0	132,424	132,424
Inventory 0	Interfund	68,714	0	0		
Liabilities and Fund Balances: Liabilities: Accounts Payable 124,165 0 17,835 97,411 239,411 Accrued Wages and Benefits 2,525,484 0 0 294,251 2,819,735 Compensated Absences 62,733 0 0 0 0 62,733 Retainage Payable 0 0 0 0 76,300 76,300 Interfund Payable 0 0 0 0 76,300 76,300 Deferred Revenue 5,404,881 974,541 0 133,045 6,512,467 General Obligation Notes Payable 0 3,250,000 0 0 0 3,250,000 Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances 154,440 0 0 388,554 542,994 Reserved for Inventory 0 0 0 4,314 4,314 Reserved for Property Tax Advances 386,956 73,652 0 0 75,952 Unreserved, Undesignated, Reported in:	Inventory	0	0	0	4,314	4,314
Liabilities: Accounts Payable 124,165 0 17,835 97,411 239,411 Accound Wages and Benefitis 2,525,484 0 0 294,251 2,819,735 Compensated Absences 62,733 0 0 0 62,733 Retainage Payable 0 0 0 13,607 13,607 Interfund Payable 0 0 0 76,300 76,300 Deferred Revenue 5,404,881 974,541 0 133,045 6,512,467 General Obligation Notes Payable 0 3,250,000 0 0 0 3,250,000 Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances 154,440 0 0 388,554 542,994 Reserved for Inventory 0 0 0 3,986 469,594 Reserved for Set-Aside 75,952 0 0 0 75,952 Unreserved, Undesignated, Reported in: <td< td=""><td>Total Assets</td><td>6,962,094</td><td>1,593,873</td><td>1,205,989</td><td>2,071,358</td><td>11,833,314</td></td<>	Total Assets	6,962,094	1,593,873	1,205,989	2,071,358	11,833,314
Accounts Payable 124,165 0 17,835 97,411 239,411 Accrued Wages and Benefits 2,525,484 0 0 0 294,251 2,819,735 Compensated Absences 62,733 0 0 0 0 62,733 Retainage Payable 0 0 0 0 13,607 13,607 Interfund Payable 0 0 0 0 76,300 76,300 Deferred Revenue 5,404,881 974,541 0 133,045 6,512,467 General Obligation Notes Payable 0 3,250,000 0 0 133,045 6,512,467 General Obligation Notes Payable 0 3,250,000 0 0 0 3,250,000 Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances 154,440 0 0 0 388,554 542,994 Reserved for Inventory 0 0 0 0 4,314 4,314 Reserved for Inventory 0 0 0 0 4,314 4,314 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Set-Aside 75,952 0 0 0 0 75,952 Unreserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 0 0 (1,772,517) Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 0 (2,704,320) 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 (58,131 1,846,285) Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)						
Accrued Wages and Benefits 2,525,484 0 0 294,251 2,819,735 Compensated Absences 62,733 0 0 0 0 0 62,733 Retainage Payable 0 0 0 0 0 13,607 13,607 Interfund Payable 0 0 0 0 0 76,300 76,300 76,300 Deferred Revenue 5,404,881 974,541 0 133,045 6,512,467 General Obligation Notes Payable 0 3,250,000 0 0 0 3,250,000 Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances 154,440 0 0 0 388,554 542,994 Reserved for Inventory 0 0 0 0 4,314 4,314 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Set-Aside 75,952 0 0 0 0 75,952 Unreserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 0 (1,772,517) Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 (2,704,320) 0 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 1,456,744 (1,140,939) Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)		124 165	٥	17 025	07 411	220 411
Compensated Absences 62,733 0 0 62,733 Retainage Payable 0 0 0 13,607 13,607 Interfund Payable 0 0 0 76,300 76,300 Deferred Revenue 5,404,881 974,541 0 133,045 6,512,467 General Obligation Notes Payable 0 3,250,000 0 0 0 32,50,000 Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances 154,440 0 0 388,554 542,994 Reserved for Inventory 0 0 0 4,314 4,314 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 1,772,517 Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 0	•	•	-	•		•
Retainage Payable 0 0 0 13,607 13,607 Interfund Payable 0 0 0 76,300 76,300 Deferred Revenue 5,404,881 974,541 0 133,045 6,512,467 General Obligation Notes Payable 0 3,250,000 0 0 0 3,250,000 Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances Reserved for Inventory 0 0 0 388,554 542,994 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 1,772,517 Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 0 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 1,456,744 (1,140,939) </td <td></td> <td></td> <td>•</td> <td>-</td> <td>•</td> <td></td>			•	-	•	
Interfund Payable 0 0 0 76,300 76,300 Deferred Revenue 5,404,881 974,541 0 133,045 6,512,467 General Obligation Notes Payable 0 3,250,000 0 0 3,250,000 Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances 154,440 0 0 388,554 542,994 Reserved for Inventory 0 0 0 4,314 4,314 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 1,172,517 Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939				-	_	•
Deferred Revenue		=	-			
General Obligation Notes Payable 0 3,250,000 0 0 3,250,000 Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances 154,440 0 0 388,554 542,994 Reserved for Inventory 0 0 0 4,314 4,314 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Set-Aside 75,952 0 0 0 75,952 Unreserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 0 (1,772,517) Special Revenue Funds 0 0 0 396,759 396,759 396,759 Debt Service Funds 0 0 0 (2,704,320) 0 0 (2,704,320) 0 0 (2,704,320) 0 0 1,188,154 1,456,744 (1,140,939) 1,140,939 1,140,939 1,140,939 1,140,939 1,140,939						
Total Liabilities 8,117,263 4,224,541 17,835 614,614 12,974,253 Fund Balances: Reserved for Encumbrances 154,440 0 0 0 388,554 542,994 Reserved for Inventory 0 0 0 4,314 4,314 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Set-Aside 75,952 0 0 0 75,952 Unreserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 0 (1,772,517) Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 (2,704,320) 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)						
Reserved for Encumbrances 154,440 0 0 388,554 542,994 Reserved for Inventory 0 0 0 4,314 4,314 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Set-Aside 75,952 0 0 0 0 75,952 Unreserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 0 (1,772,517) Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 (2,704,320) 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	Total Liabilities	8,117,263	4,224,541	17,835	614,614	12,974,253
Reserved for Inventory 0 0 0 4,314 4,314 Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Set-Aside 75,952 0 0 0 0 75,952 Unreserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 0 (1,772,517) Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 (2,704,320) 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	Fund Balances:	* *				
Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Set-Aside 75,952 0 0 0 0 75,952 Unreserved, Undesignated, Reported in: General Fund General Fund (1,772,517) 0 0 0 0 (1,772,517) Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 (2,704,320) 0 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	Reserved for Encumbrances	154,440	0	0	388,554	542,994
Reserved for Property Tax Advances 386,956 73,652 0 8,986 469,594 Reserved for Set-Aside 75,952 0 0 0 75,952 Unreserved, Undesignated, Reported in: General Fund (1,772,517) 0 0 0 0 (1,772,517) Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 (2,704,320) 0 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	Reserved for Inventory	0.	0	.0	4,314	4,314
Unreserved, Undesignated, Reported in: General Fund (1,772,517) Special Revenue Funds 0 0 396,759 Debt Service Funds 0 (2,704,320) Capital Projects Funds 0 1,188,154 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	Reserved for Property Tax Advances	386,956	73,652	0	8,986	469,594
General Fund (1,772,517) 0 0 0 (1,772,517) Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 (2,704,320) 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	Reserved for Set-Aside	75,952	0	0	0	75,952
Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 (2,704,320) 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	Unreserved, Undesignated, Reported in:					
Special Revenue Funds 0 0 0 396,759 396,759 Debt Service Funds 0 (2,704,320) 0 0 (2,704,320) Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	General Fund	(1,772,517)	. 0	0	0	(1,772,517)
Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	Special Revenue Funds		0 .	0	396,759	396,759
Capital Projects Funds 0 0 1,188,154 658,131 1,846,285 Total Fund Balances (1,155,169) (2,630,668) 1,188,154 1,456,744 (1,140,939)	Debt Service Funds	0	(2,704,320)	0	0	(2,704,320)
	Capital Projects Funds	. 0		1,188,154	658,131	1,846,285
Total Liabilities and Fund Balances \$6,962,094 \$1,593,873 \$1,205,989 \$2,071,358 \$11,833,314	Total Fund Balances	(1,155,169)	(2,630,668)	1,188,154	1,456,744	(1,140,939)
	Total Liabilities and Fund Balances	\$6,962,094	\$1,593,873	\$1,205,989	\$2,071,358	\$11,833,314

Hillsboro City School District Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities June 30, 2005

Total Governmental Fund Balance	(\$1,140,939)
Amounts reported for governmental activities in the	
statement of net assets are different because:	•
Capital assets used in governmental activities are not financial	
resources and therefore are not reported in the funds.	20,586,138
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	
Delinquent Property Taxes 285,148	
Intergovernmental 12,533	
	297,681
An internal service fund is used by management to charge	
back costs to individual funds. The assets and	
liabilities of the internal service fund are included in	
governmental activities in the statement of net assets.	(30,123)
 In the statement of net assets interest payable is accrued when	
incurred, whereas in the governmental funds interest is	
reported as a liability only when it will require the use of	
current financial resources.	(81,047)
Some liabilities reported in the statement of net assets do not	
require the use of current financial resources and therefore	
are not reported as liabilities in governmental funds.	
Compensated Absences (835,767)	
	(835,767)
Long-term liabilities, are not due and payable in the current	
period and therefore are not reported in the funds.	(9,405,000)
Net Assets of Governmental Activities	\$9,390,943

		Debt	Permanent	Other Governmental	Total Governmental
	General	Service	Improvement	Funds	Funds
Revenues:					
Taxes	\$7,203,999	\$918,061	\$0	\$117,857	\$8,239,917
Tuition and Fees	435,806	0	. 0	10,264	446,070
Investment Earnings	42,814	0	19,382	28,954	91,150
Intergovernmental	11,628,939	100,249	. 0	2,322,607	14,051,795
Extracurricular Activities	0	0	0	323,203	323,203
Charges for Services	0	. 0	0	478,314	478,314
Other Revenues	114,508	0	0	111,473	225,981
Total Revenues	19,426,066	1,018,310	19,382	3,392,672	23,856,430
Expenditures:		•	-		
Current:					
Instruction:					
Regular	8,692,178	0	0	. 820,195	9,512,373
Special	1,231,714	0	0	870,152	2,101,866
Vocational	715,945	0	0	0	715,945
Other	1,159,250	0	0	0	1,159,250
Support Services:	1,139,230	U	. 0	U	1,139,230
Pupil	1,031,257	0	0	70,192	1,101,449
Instructional Staff	1,383,002	0	0	496,819	
General Administration			-	490,819	1,879,821
	34,994	0	0		34,994
School Administration	2,179,427	0	0	62,055	2,241,482
Fiscal	432,029	. 0	0	4,610	436,639
Operations and Maintenance	1,846,097	0	95,172	37,584	1,978,853
Pupil Transportation	1,113,096	0	76,203	11,196	1,200,495
Central	9,098	. 0	0	15,771	24,869
Operation of Non-Instructional Services	80,619	. 0	0	1,141,723	1,222,342
Extracurricular Activities	247,858	0	0	185,609	433,467
Capital Outlay	16,614	0	0	1,241,167	1,257,781
Debt Service:					
Principal Retirement	0	246,298	0	0	246,298
Interest and Fiscal Charges	0	505,293	. 0	3,117	508,410
					2602624
Total Expenditures	20,173,178	751,591	171,375	4,960,190	26,056,334
Excess of Revenues Over (Under) Expenditures	(747,112)	266,719	(151,993)	(1,567,518)	(2,199,904)
Other Financing Sources (Uses):				. *	
Proceeds from Sale of Assets	3,320	0	0	0	3,320
Transfers In	0	21,863	0	0	21,863
Transfers (Out)	(21,863)	21,005	0	0	(21,863)
Transiers (Out)	(21,803)				(21,005)
Total Other Financing Sources (Uses)	(18,543)	21,863	0	0	3,320
Net Change in Fund Balance	(765,655)	288,582	(151,993)	(1,567,518)	(2,196,584)
Fund Balance Beginning of Year, Restated	(389,514)	(2,919,250)	1,340,147	3,024,262	1,055,645
Fund Balance End of Year	(\$1,155,169)	(\$2,630,668)	\$1,188,154	\$1,456,744	(\$1,140,939)

Net Change in Fund Balance - Total Governmental Funds		(\$2,196,584)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital		
asset additions and depreciation in the current period.		•
Capital assets used in governmental activities Depreciation Expense	1,606,483 (433,174)	1,173,309
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss.		(1,376)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes (71,229) Intergovernmental (58,515)		(129,744)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		246,298
In the statement of activities interest expense is accrued when incurred whereas in governmental funds an interest expenditure is reported when due.	•	(46,497)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	• • • • • • • • • • • • • • • • • • •	
Compensated Absences 143,672		<u>-</u>
The internal service fund used by management to charge back costs to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	ies.	143,672 (178)
Change in Net Assets of Governmental Activities		(\$811,100)
See accompanying notes to the basic financial statements.		. •

	Governmental Activities- Internal Service Fund
Assets:	
Equity in Pooled Cash and Investments	\$39,411
Total Assets	39,411
•	
Liabilities:	
Current Liabilities:	
Claims Payable	69,534
Total Liabilities	69,534
Net Assets:	
Unrestricted	(30,123)
Total Net Assets	(\$30,123)

Hillsboro City School District Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds For the Fiscal Year Ended June 30, 2005

	Governmental
•	Activities-
	Internal Service
	Fund
Operating Revenues:	
Charges for Services	\$277,420
Total Operating Revenues	277,420
Operating Expenses:	
Contactual Services	277,598
Total Operating Expenses	277,598
•	
Change in Net Assets	(178)
Net Assets Beginning of Year	(29,945)
Net Assets End of Year	(#20.102)
NEL ASSEIS EIIO OF TEXT	(\$30,123)

	Governmental Activities- Internal Service
	Fund
Cash Flows from Operating Activities:	#0## 400
Cash Received from Customers	\$277,420
Cash Payments to Suppliers	(261,964)
Net Cash Provided (Used) by Operating Activities	15,456
Net Increase (Decrease) in Cash and Cash Equivalents	15,456
Cash and Cash Equivalents Beginning of Year	23,955
Cash and Cash Equivalents End of Year	39,411
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(178)
Changes in Assets & Liabilities:	•
Increase (Decrease) in Payables	15,634
Net Cash Provided (Used) by Operating Activities	\$15,456

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$7,848	\$101,648
Total Assets	7,848	\$101,648
Liabilities:		
Accounts Payable	0	11,433
Other Liabilities	0	90,215
Total Liabilities	0	\$101,648
Net Assets:		
Held in Trust	7,848	
Total Net Assets	\$7,848	

Hillsboro City School District Statement of Changes in Fiduciary Net Assets Fiduciary Funds For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
Additions: Donations	\$130
Total Additions	
Deductions: Scholarships	0
Total Deductions	0
Change in Net Assets	130
Net Assets Beginning of Year	7,718
Net Assets End of Year	

HILLSBORO CITY SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2005

1. DESCRIPTION OF THE DISTRICT

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

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 110 non-certificated personnel and 227 certificated teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the District's ADM is 2,787. It currently operates four elementary buildings housing grades K-6, and one Middle School/Senior High building housing grades 7-12. The Administrative Office is located at 338 West Main Street, Hillsboro, Ohio.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its proprietary funds provided they do no conflict with or contradict GASB pronouncements. For proprietary funds, the District has elected not to follow subsequent private-sector guidance. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

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

Fiduciary funds (except agency funds) are reported using the economic resources measurement focus.

FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

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

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

<u>Debt Service Fund</u> – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

<u>Permanent Improvement Fund</u> – The permanent improvement fund is used to account for the receipts and expenditures related to the improvements of existing school buildings.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the District has no enterprise funds.

<u>Internal Service Fund</u> – This fund is used to account for the financing of services provided by one department to other departments of the District on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has a student activity agency fund which accounts for assets and liabilities generated by student managed activities.

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 year end: property taxes available for advance, grants, rent and student fees, and interest.

Deferred Revenue

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

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

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

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities 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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

EQUITY IN POOLED CASH AND INVESTMENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

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

The District has invested funds in federal securities, money market funds, and the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2005 amounted to \$91,150.

For purposes of the statement of cash flows, the Internal Service fund portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the fund without prior notice or penalty.

INVENTORY

Inventories are presented at cost on a first in, first out basis and are expended/expensed when used. Inventory consists of food held for resale and consumable supplies.

CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two thousand dollars (\$2,000). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated, except land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

Governmental
Activities
Estimated Lives

Description

Buildings and Improvements Equipment 20 - 40 years 3 - 15 years

RESTRICTED ASSETS

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other government or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization and amounts held in retainage for contractors.

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vested payment method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences are recognized when due. These related liabilities are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

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

Vacation How Earned	<u>Certified</u> Not Eligible	Administrators Per Board Policy	Non-Certificated 10-20 days
Termination Entitlement	Not Applicable	Per Board Policy	Per Board Policy
Sick Leave How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	245 days	245 days	245 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Board Policy	Per Board Policy

NET ASSETS

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

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

OPERATING REVENUES AND EXPENSES

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

FUND BALANCE RESERVES

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The designation for budget stabilization represents revenues set aside that exceed statutorily required amounts.

INTERFUND ACTIVITY

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

INTERFUND ASSETS/LIABILITIES

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

ESTIMATES

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

3. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

<u>Inactive Monies</u> – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

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

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

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 guranteed as to principal and interest by the United States;
- (2) Bonds, notes, debentures, or any other obligation 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 Management Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

- (3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- (4) Bonds and other obligations of the State of Ohio;
- (5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- (6) The State Treasurer's investment pool (STAR Ohio);
- (7) Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time, and;
- (8) Under limited circumstances, debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand

At fiscal year end, the District had \$400 in undeposited cash on hand which is included on the statement of net assets and governmental balance sheet of the District as part of "Equity in Pooled Cash and Investments".

Deposits

The District's deposits are required to be categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered deposits which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits for which securities are held by the counterparty, or by its trust department or agent but not in the District's name. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

At fiscal year end, the carrying amount of the District's deposits was \$1,751,118 and the bank balance was \$2,064,874. Of the bank balance \$197,863 was covered by federal depository insurance (Category 1). \$1,867,011 was uninsured and uncollateralized (Category 3) and subject to custodial credit risk. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the District or its agent in the District's name holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

		Weighed Average
Investment Type	Fair Value	Maturity (Years)
Federal Home Loan Bank Notes	\$100,000	0.36
Federal Home Loan Bank Notes	100,375	1.23
Federal Home Loan Mortgage		
Corporation Notes	1,066,497	0.79
Federal National Mortgage		
Association Notes	682,750	0.48
STAROhio	<u>313,756</u>	<u>0.00</u>
Total Fair Value	<u>\$2,263,378</u>	
Portfolio Weighted Average Maturity		0.59

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The District limits their investments to securities in STAR Ohio, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, and Federal National Mortgage Association Notes. Below are the credit ratings of the District's investments:

	Rating Agency		
Security	Moody's	Standard & Poor's	
STAR Ohio	N/A	AAAm	
Federal Home Loan Bank Notes	Aaa	AAA	
Federal Home Loan Mortgage Corporation Notes	Aaa	AAA	
Federal National Mortgage Association Notes	Aaa	AAA	

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The District's investment policy allows investments in Federal Agencies or Instrumentalities. Federal Home Loan Bank Notes comprised 8.8% of the District's investments, Federal Home Loan Mortgage Corporation Notes comprised 47.1% of the District's investments, Federal National Mortgage Association Notes comprised 30.2% of the District's investments, and STAR Ohio comprised 13.9% of the District's investments.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

4. PROPERTY/INCOME TAXES

Property Tax

Real property taxes collected in 2005 were levied in April on the assessed values as of January 1, 2004, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). In 2005, each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2005, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2005 and for which there is an enforceable legal claim. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available 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, 2005, was \$386,956 for General Fund, \$8,986 for Classroom Facilities Fund and \$73,652 for Debt Service Fund, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2005 operations.

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

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

	2005
	<u>Amount</u>
Agricultural/Residential	
and Other Real Estate	\$230,109,410
Public Utility Personal	11,942,330
Tangible Personal Property	29,338,958
Total	\$271,390,698

Income Tax

The District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuous levy. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

5. RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, accounts (rent and student fees), intergovernmental grants, interfund and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

6. CAPITAL ASSETS

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

Capital Assets, not being depreciated:				
Land	\$1,522,499	\$0	\$0	\$1,522,499
Construction in Progress	13,146,398	1,257,781	0	14,404,179
Total Capital Assets, not being				
depreciated	14,668,897	1,257,781	0	15,926,678
Capital Assets, being depreciated:				
Buildings and Improvements	5,449,590	0	0	5,449,590
Equipment	5,455,338	348,702	(3,320)	5,800,720
			-	
Total Capital Assets, being depreciated:	10,904,928	348,702	(3,320)	11,250,310
Totals at Historical Cost	25,573,825	1,606,483	(3,320)	27,176,988
Less Accumulated Depreciation:				
Buildings and Improvements	(2,231,165)	(105,694)	0	(2,336,859)
Equipment	(3,928,455)	(327,480)	1,944	(4,253,991)
Total Accumulated Depreciation	(6,159,620)	(433,174)	1,944	(6,590,850)
Governmental Activities Capital Assets, Net	\$19,414,205	\$1,173,309	(\$1,376)	\$20,586,138
1				

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$205,916
Special	4,575
Vocational	2,331
Support Services:	
Pupil	2,097
Instructional Staff	13,832
School Administration	10,438
Fiscal	1,022
Operations and Maintenance	17,041
Pupil Transportation	154,975
Operation of Non-Instructional Services	5,674
Extracurricular Activities	15,273
Total Depreciation Expense	\$433,174

7. NOTES PAYABLE

During fiscal year 2005, the District issued one-year \$3,250,000 bond anticipation notes for the purpose of construction and renovation of buildings. This note will be repaid with tax revenue. This note is backed by the full faith and credit of the District. The note liability is reflected in the fund which received the proceeds.

Permanent Improvement	Beginning Balance	Additions	<u>Deductions</u>	Ending Balance
Debt Service Fund: 2.26% Bond Anticipation Note 2.85% Bond Anticipation Note	\$3,250,000 <u>0</u>	\$ 0 3,250,000	\$3,250,000 <u>0</u>	\$ 0 3,250,000
Totals	<u>\$3,250,000</u>	<u>\$3,250,000</u>	<u>\$3,250,000</u>	\$3,250,000

8. LONG-TERM LIABILITIES

	Maturity Dates	Beginning Principal Outstanding	Additions	Deductions	Ending Principal Outstanding	Due In One Year
Governmental Activities: General Obligation Bonds: School Energy Conservation		Outstanding	Additions	Deductions	Outstanding	One Tear
1999 5.2%	9/21/04	\$21,298	\$ 0	\$21,298	\$0	\$0
School Improvement 2001 3.25%	12/01/28	<u>9,630,000</u>	0	225,000	<u>9.405.000</u>	230,000
Total General Obligation Bonds		9,651,298	0	246,298	9,405,000	230,000
Compensated Absences		1,024,532	165.852	291,884	<u>898.500</u>	<u>106,273</u>
Total Governmental Activiti Long-Term Liabilities	es	<u>\$10,675,830</u>	<u>\$165,852</u>	<u>\$538,182</u>	<u>\$10,303,500</u>	<u>\$336,273</u>

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

General Obligation Bonds				
Fiscal Year	•			
Ending June 30,	Principal	<u>Interest</u>	<u>Total</u>	
2006	\$230,000	\$436,825	\$666,825	
2007	240,000	429,247	669,247	
2008	250,000	421,158	671,158	
2009	255,000	412,318	667,318	
2010	265,000	402,759	667,759	
2011-2015	1,485,000	1,844,124	3,329,124	
2016-2020	1,875,000	1,435,898	3,310,898	
2021-2025	2,415,000	889,308	3,304,308	
2026-2029	2,390,000	241,079	<u>2,631,079</u>	
Totals	\$9,405,000	\$6,512,716	<u>\$15,917,716</u>	

9. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$466,536, \$447,228, and \$396,492 respectively; 50% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003.

STATE TEACHERS RETIREMENT SYSTEM

The District participates in State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,394,016, \$1,382,832, and \$1,270,068 respectively; 84% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003.

10. POST EMPLOYMENT 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-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits included hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provision 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.

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of 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 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$99,572 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. For the District, this amount equaled \$114,301 for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

11. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2005.

LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

12. JOINTLY GOVERNED ORGANIZATIONS

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

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

13. RISK MANAGEMENT

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 for automobile liability. The District also has umbrella liability coverage with a limit of \$5,000,000. There has been no significant change in coverage from the prior year. Settled claims have not exceeded coverage in any of the past 3 years.

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$35,771,626. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The District pays all appointed officials' bonds by statute. Dental insurance is offered to employees through the Internal Service Fund. The claims liability of \$69,534 reported in the Internal Service Fund at fiscal year end is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the fiscal year follows:

	Balance at Beginning of Year	Current Year <u>Claims</u>	Claims <u>Payments</u>	Balance at End of Year
FY 2005	\$53,900	\$277,598	\$261,964	\$69,534
FY 2004	49,107	247,120	242,327	53,900
FY 2003	113,271	122,102	186,266	49,107

14. ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
General Fund	\$1,155,169
Special Revenue Fund:	
Ohio Reads	3,912
Alternative School	4,146
Title I	64,007
Drug Free Schools	1,834
Improving Teacher Quality	1,206
Miscellaneous Grants	9,262
Food Service	138,597
Customer Service	2,776
Debt Service	2,630,668
Internal Service	30,123

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

15. FUND BALANCE RESERVES FOR SET-ASIDES

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

For fiscal year ended June 30, 2005, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

		Capital	Budget
	<u>Textbooks</u>	Acquisition	Stabilization
Set-aside Reserve Balance as of June 30, 2004	(\$513,814)	\$ 0	\$75,952
Current Year Set-aside Requirement	408,643	408,643	0
Qualified Disbursements	(680,268)	(1,194,294)	0
Current Year Offsets	0	0	0
Set-Aside Reserve Balance as of June 30, 2005	<u>\$</u> 0	\$ 0	\$75,952
Restricted Cash as of June 30, 2005 Carry Forward to FY2006	\$ 0 (\$785,439)	\$ 0 \$ 0	\$75,952 \$ 0

Qualifying expenditures, including carry forward for textbook activity during the year were \$1,194,082, which exceeds the required set-aside reserve. Although the District had qualifying disbursements, including current year offsets, during the fiscal year that reduced the capital maintenance set-aside amount below zero, only the amount for the textbook set-aside may be used to reduce the set-aside requirement of future years.

16. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2005, consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

	Interfund		Transfers	
	Receivable	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$68,714	\$0	\$0	\$21,863
Debt Service Fund	0	0	21,863	0
Other Governmental Funds	<u>_ 7,586</u>	<u>76,300</u>	0	0
Total All Funds	<u>\$76,300</u>	<u>\$76,300</u>	<u>\$21,863</u>	<u>\$21,863</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

17. CHANGE IN ACCOUNTING PRINCIPLE/PRIOR PERIOD ADJUSTMENT

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures". GASB 40 establishes and modifies disclosure requirements related to investment risk: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments.

For 2005, the District has implemented GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers." This Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment (OPEB) plans.

The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the General and Other Governmental Funds of the District as they were previously reported as of June 30, 2004:

		Other Governmental
	General	<u>Funds</u>
Fund Balances, June 30, 2004	(\$264,548)	\$3,055,089
GASB Technical Bulletin No. 2004-2	(124,966)	(30,827)
Restated Fund Balance, July 1, 2004	<u>(\$389,514)</u>	<u>\$3,024,262</u>

A prior period adjustment was required to restate capital assets at June 30, 2004 due to an understatement of construction in progress in the prior year. This restatement had the following effect on net assets at June 30, 2004:

•	Governmental
	<u>Activities</u>
Net assets as previously reported	\$7,625,102
Restatement for capital assets	2,576,941
Net assets, restated at July 1, 2004	\$10,202,043

General Fund

	Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:			Actual	1 mai Dudget
Taxes	\$6,987,127	\$6,938,890	\$7,249,103	\$310,213
Tuition and Fees	394.414	137,214	409,202	271,988
Investment Earnings	38,162	34,741	39,593	4,852
Intergovernmental	11,208,680	11,461,853	11,628,939	167,086
Other Revenues	91.498	148,745	94,929	
Olici Revenues	91,496	146,/45	94,929	(53,816)
Total Revenues	18,719,881	18,721,443	19,421,766	700,323
- ·		•		
Expenditures:				
Current:				
Instruction:		,		
Regular	8,350,297	8,453,568	8,450,464	3,104
Special	1,154,167	1,171,841	1,168,012	3,829
Vocational	665,650	673,904	673,635	269
Other	1,146,846	1,160,603	1,160,603	. 0
Support Services:				
Pupil	984,051	1,010,470	995,855	14,615
Instructional Staff	1,316,884	1,334,202	1,332,681	1,521
General Administration	34,579	39,914	34,994	4,920
School Administration	2,046,958	2,077,013	2,071,512	5,501
Fiscal	403,021	424,059	407,855	16,204
Operations and Maintenance	1,918,079	1,946,946	1,941,088	5,858
Pupil Transportation	1,102,299	1,168,778	1,115,522	53,256
Central	9,395	11,271	9,508	1,763
Operation of Non-Instructional Services	77,460	90,121	78,389	11,732
Extracurricular Activities	244,920	250,890	247,858	3,032
Capital Outlay	•			
Capital Olliay	18,882	48,504	19,109	29,395
Total Expenditures	19,473,488	19,862,084	19,707,085	154,999
Excess of Revenues Over (Under) Expenditures	(753,607)	(1,140,641)	(285,319)	855,322
Other financing sources (uses):			•	
Proceeds from Sale of Capital Assets	3,200	2,139	3,320	1,181
Transfers (Out)	(21,733)	(21,994)	(21,994)	0
Total Other Financing Sources (Uses)	(18,533)	(19,855)	(18,674)	1,181
Net Change in Fund Balance	(772,140)	(1,160,496)	(303,993)	856,503
Fund Balance Beginning of Year (includes				
prior year encumbrances appropriated)	303,045	303,045	303,045	
prior year encumorances appropriateu)		303,043	303,043	0
Fund Balance End of Year	(\$469,095)	(\$857,451)	(\$948)	\$856,503

See accompanying notes to the required supplementary information.

HILLSBORO CITY SCHOOL DISTRICT NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION For The Year Ended June 30, 2005

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2005.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

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

- 1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- 2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- 3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
- 4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

÷	<u>General</u>
GAAP Basis	(\$765,655)
Net Adjustment for Revenue Accruals	(4,300)
Net Adjustment for Expenditure Accruals	744,564
Encumbrances	(278,602)
Budget Basis	<u>(\$303,993)</u>

Highland County Schedule of Federal Awards Expenditures For the Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/	Pass Through Entity	Federal CFDA			Non-Cash		Non-Cash
Program Title	Number	Number	Rec	eipts	Receipts	Disbursements	Disbursements
United States Department of Agriculture							
Passed through Ohio Department of Education	•						
Nutrition Cluster:							
Food Distribution Program	NA	10.550	\$	- 5	\$ 64,659	\$ -	\$ 64,659
National School Breakfast Program	O5PU	10.553		65,981	-	65,981	-
National School Lunch Program	LLP4	10.555		298,925	-	298,925	-
Special Milk Program		10.556		60	-	60	<u>-</u>
Total United States Department of Agriculture - Nutrition Cluster				364,966	64,659	364,966	64,659
United States Department of Education							
Passed through Ohio Department of Education	_						
Title 1 Grants to Local Education Agencies	C1S1	84.010		935,395	-	857,821	-
Special Education Cluster							
Special Education - Grants to States	6BSF	84.027		327,818	-	280,580	-
Special Education - Preschool Grants	PGS1	84.173		3,372		3,372	
Total Special Education Cluster				331,190	-	283,952	-
Safe and Drug-Free Schools and Communities -							
National Program	T4S1	84.184C		1,250	-	5,250	-
Safe and Drug-Free Schools and Communities -							
State Grants	DRS1	84.186		14,775	-	18,576	-
Twenty-First Century Community Learning Centers	T1S1	84.287		237,370	-	235,860	-
State Grants for Innovative Programs	C2S1	84.298		22,893	-	25,107	-
Education Technology State Grants	TJS1	84.318		11,898	-	9,692	-
School Renovation, IDEA and Technology	ATS3	84.352A		-	-	181	-
Comprehensive School Reform Demonstration	RFS1	84.332		23,901	-	26,560	-
Improving Teacher Quality State Grants	TRS1	84.367		150,148	-	144,312	-
Passed through the Great Oaks Institute of Technology and							
Career Development							
Vocational Education - Basic Grants to States	NA	84.048		5,735	-	6,011	<u> </u>
Total United States Department of Education				1,734,555	-	1,613,322	-
United States Department of Health and Human Services	_						
Passed through Ohio Department of Mental Retardation and							
Developmental Disabilities							
State Children's Insurance Program	NA	93.767		12,871	-	12,871	-
Medical Assistance Program	NA	93.778		61,677		61,677	<u> </u>
Total United States Department of Health and Human Services				74,548	-	74,548	-
Total Federal Financial Assistance			\$	2,174,069	\$ 64,659	\$ 2,052,836	\$ 64,659

NA - Not Available

See accompanying notes to the schedule of federal awards expenditures

HILLSBORO CITY SCHOOL DISTRICT HIGHLAND COUNTY NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MEDICAL ASSISTANCE PROGRAM

Receipts for this grant are posted to the general fund. It is assumed that federal monies are expended first.

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Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board Hillsboro City School District 338 West Main Street Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hillsboro City School District (the District), Highland County, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 31, 2006, wherein we indicated the District implemented GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the District in a separate letter dated March 31, 2006.

Members of the Board Hillsboro City School District

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*Page 2

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

Balestra, Harr & Scherer, CPAs, Inc.

Balistra, Harr & Scherur

March 31, 2006

BALESTRA, HARR & SCHERER CPAs, INC.

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Ohio Society of Certified Public Accountants

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board Hillsboro City School District 338 West Main Street Hillsboro, Ohio 45133

Compliance

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

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

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

Members of the Board
Hillsboro City School District
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133
Page 2

Internal Control Over Compliance

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

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

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

Balestra, Harr & Scherer, CPAs, Inc.

Ballstra, Harr & Scherur

March 31, 2006

HILLSBORO CITY SCHOOL DISTRICT HIGHLAND COUNTY

SCHEDULE OF FINDINGS OMB CIRCULAR A -133 Section .505 JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non- compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under .510?	No
(d)(1)(vii)	Major Program (list):	Nutrition Cluster CFDA # 10.550, 10.553, 10.555 & 10.556; Title 1 CFDA # 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

HILLSBORO CITY SCHOOL DISTRICT HIGHLAND COUNTY

SCHEDULE OF FINDINGS OMB CIRCULAR A -133 Section .505 JUNE 30, 2005 (Continued)

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

HILLSBORO CITY SCHOOL DISTRICT HIGHLAND COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS OMB CIRCULAR A-133 § .315 (b) FOR THE YEAR ENDED JUNE 30, 2005

			Not Corrected, Partially
			Corrected; Significantly
			Different Corrective
Finding		Fully	Action Taken; or Finding
Number	Finding Summary	Corrected?	No Longer Valid; Explain
2004-1	The District failed to implement procedures to	Yes	
	assure the completeness and accuracy of dental		
	insurance claims processed by its third party		
	administrator.		



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HILLSBORO CITY SCHOOL DISTRICT HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

CLERK OF THE BUREAU

Susan Babbitt

CERTIFIED MAY 23, 2006