



**Auditor of State
Betty Montgomery**

**HARDIN HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Hardin-Houston Local School District
Shelby County
5300 Houston Road
Houston, Ohio 45333

To the Members of the Board of Education:

We have audited the accompanying general-purpose financial statements of the Hardin-Houston Local School District, Shelby County, (the District) as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Hardin-Houston Local School District, Shelby County, as of June 30, 2002 and 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3, for the year ended June 30, 2001, the District implemented Governmental Accounting Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 28, 2003

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**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2002**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Assets and Other Debits				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,010,869	\$54,580	\$305,751	\$478,560
Cash and Cash Equivalents with Fiscal Agent		3,974		
Receivables:				
Property Taxes	1,623,216		37,305	
Income Taxes	146,139			68,030
Accounts	7,056	380		
Intergovernmental	30,794	3,778		
Accrued Interest	792			396
Prepaid Items	12,016			
Inventory Held for Resale				
Inventory of Supplies and Materials	12,372			
Restricted Asset:				
Equity in Pooled Cash and Cash Equivalents	33,223			
Fixed Assets (Net, where applicable, of Accumulated Depreciation)				
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Long-Term Obligations				
Amount to be Provided for Retirement of General Long-Term Obligations				
Total Assets and Other Debits	<u>2,876,477</u>	<u>62,712</u>	<u>343,056</u>	<u>546,986</u>
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts Payable	10,306	1,570		
Accrued Wages and Benefits Payable	465,479	8,290		
Compensated Absences Payable	2,286			
Intergovernmental Payable	94,034	172		1,166
Deferred Revenue	1,555,787	3,778	35,004	7,139
Due to Students				
Energy Conservation Loan Payable				
General Obligation Bonds Payable				
Total Liabilities	<u>2,127,892</u>	<u>13,810</u>	<u>35,004</u>	<u>8,305</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Retained Earnings (Deficit)				
Fund Balance:				
Reserved for Encumbrances	22,404	1,480		
Reserved for Inventory of Supplies and Materials	12,372			
Reserved for Property Taxes	97,509		2,301	
Reserved for School Bus Purchases	33,223			
Unreserved:				
Designated for Budget Stabilization	38,784			
Undesignated	544,293	47,422	305,751	538,681
Total Fund Equity (Deficit) and Other Credits	<u>748,585</u>	<u>48,902</u>	<u>308,052</u>	<u>538,681</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$2,876,477</u>	<u>\$62,712</u>	<u>\$343,056</u>	<u>\$546,986</u>

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		
		General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
Enterprise	Trust and Agency			
\$3,498	\$40,136			\$1,893,394 3,974
				1,660,521 214,169 7,436 34,572 1,188 12,016
8,845 777				8,845 13,149
				33,223
5,638		\$4,134,382		4,140,020
			\$308,052	308,052
			518,573	518,573
<u>18,758</u>	<u>40,136</u>	<u>4,134,382</u>	<u>826,625</u>	<u>8,849,132</u>
				11,876
17,094				490,863
6,783			336,701	345,770
17,011			56,361	168,744
				1,601,708
	38,863			38,863
			163,563	163,563
			270,000	270,000
<u>40,888</u>	<u>38,863</u>		<u>826,625</u>	<u>3,091,387</u>
		4,134,382		4,134,382
(22,130)				(22,130)
				23,884
				12,372
				99,810
				33,223
				38,784
	1,273			1,437,420
<u>(22,130)</u>	<u>1,273</u>	<u>4,134,382</u>		<u>5,757,745</u>
<u>\$18,758</u>	<u>\$40,136</u>	<u>\$4,134,382</u>	<u>\$826,625</u>	<u>\$8,849,132</u>

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>				<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expensible Trust</u>	
Revenues:						
Property Taxes	\$1,630,537		\$55,213			\$1,685,750
Income Taxes	360,685			180,342		541,027
Tuition and Fees	147,436					147,436
Interest	42,743			1,808		44,551
Intergovernmental	3,376,986	\$229,662	5,866	26,600		3,639,114
Extracurricular Activities		57,036				57,036
Gifts and Donations	2,667	2,510			\$1,000	6,177
Rent	1,458					1,458
Miscellaneous	32,602			294,155		326,757
Total Revenues	<u>5,595,114</u>	<u>289,208</u>	<u>61,079</u>	<u>502,905</u>	<u>1,000</u>	<u>6,449,306</u>
Expenditures:						
Current:						
Instruction:						
Regular	2,590,100	104,972		33,685		2,728,757
Special	439,567	115,139				554,706
Vocational	63,073					63,073
Other	35,312					35,312
Support Services:						
Pupils	173,909	25,330				199,239
Instructional Staff	329,726	29,513				359,239
Board of Education	9,216					9,216
Administration	390,462	197				390,659
Fiscal	148,889	500	319	2,829		152,537
Business	1,282					1,282
Operation and Maintenance of Plant	452,935			64,934		517,869
Pupil Transportation	571,666	839				572,505
Operation of Non-Instructional Services	1,475	1,356			1,050	3,881
Extracurricular Activities	96,030	46,115				142,145
Capital Outlay	13,979					13,979
Debt Service:						
Principal Retirement	10,250		25,000			35,250
Interest and Fiscal Charges	10,120		21,541			31,661
Total Expenditures	<u>5,337,991</u>	<u>323,961</u>	<u>46,860</u>	<u>101,448</u>	<u>1,050</u>	<u>5,811,310</u>
Excess of Revenues						
Over (Under) Expenditures	257,123	(34,753)	14,219	401,457	(50)	637,996
Other Financing Sources:						
Proceeds from Sale of Fixed Assets	800					800
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	257,923	(34,753)	14,219	401,457	(50)	638,796
Fund Balances at Beginning of Year	497,928	83,655	293,833	137,224	1,323	1,013,963
Decrease in Reserve for Inventory	(7,266)					(7,266)
Fund Balances at End of Year	<u>\$748,585</u>	<u>\$48,902</u>	<u>\$308,052</u>	<u>\$538,681</u>	<u>\$1,273</u>	<u>\$1,645,493</u>

See Accompanying Notes to the General Purpose Financial Statements.

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**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$1,629,500	\$1,625,697	(\$3,803)			
Income Taxes	384,000	385,425	1,425			
Tuition and Fees	123,600	122,121	(1,479)			
Interest	45,000	45,675	675			
Intergovernmental	3,363,527	3,371,602	8,075	\$173,595	\$175,270	\$1,675
Extracurricular Activities				56,703	56,656	(47)
Gifts and Donations	3,384	2,667	(717)	2,462	2,510	48
Rent	1,500	1,458	(42)			
Miscellaneous	8,369	8,539	170			
Total Revenues	5,558,880	5,563,184	4,304	232,760	234,436	1,676
Expenditures:						
Current:						
Instruction:						
Regular	2,581,561	2,580,156	1,405	110,281	106,248	4,033
Special	438,440	436,078	2,362	85,320	71,080	14,240
Vocational	64,118	63,788	330			
Other	132,000	35,312	96,688			
Support Services:						
Pupils	219,192	175,291	43,901	24,012	23,436	576
Instructional Staff	328,396	325,944	2,452	14,654	10,682	3,972
Board of Education	9,365	9,209	156			
Administration	428,772	406,835	21,937	200	197	3
Fiscal	159,083	150,745	8,338	500	500	
Business	1,500	1,282	218			
Operation and Maintenance of Plant	494,592	471,106	23,486			
Pupil Transportation	596,380	568,649	27,731	1,500	974	526
Operation of Non-Instructional Services	1,500	1,475	25	1,717	1,356	361
Extracurricular Activities	99,350	95,967	3,383	45,950	45,780	170
Capital Outlay	17,000	16,979	21			
Debt Service:						
Principal Retirement	10,254	10,250	4			
Interest and Fiscal Charges	10,129	10,120	9			
Total Expenditures	5,591,632	5,359,186	232,446	284,134	260,253	23,881
Excess of Revenues Over (Under) Expenditures	(32,752)	203,998	236,750	(51,374)	(25,817)	25,557
Other Financing Sources:						
Proceeds from Sale of Fixed Assets	1,000	800	(200)			
Refund of Prior Year Expenditures	23,958	24,063	105			
Total Other Financing Sources	24,958	24,863	(95)			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(7,794)	228,861	236,655	(51,374)	(25,817)	25,557
Fund Balances at Beginning of Year	766,210	766,210		73,737	73,737	
Prior Year Encumbrances Appropriated	15,260	15,260		4,018	4,018	
Fund Balances at End of Year	\$ 773,676	\$1,010,331	\$236,655	\$26,381	\$51,938	\$25,557

See Accompanying Notes to the General Purpose Financial Statements.

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$58,803	\$57,252	(\$1,551)	\$192,352	\$192,713	\$361			
5,000	5,866	866	2,500	2,139	(361)			
			26,600	26,600				
						\$1,000	\$1,000	
			294,155	294,155				
63,803	63,118	(685)	515,607	515,607		1,000	1,000	
			52,100	33,685	18,415			
2,000	1,005	995	3,100	3,063	37			
			94,354	64,934	29,420			
						1,200	1,050	\$150
25,000	25,000							
21,541	21,541							
48,541	47,546	995	149,554	101,682	47,872	1,200	1,050	150
15,262	15,572	310	366,053	413,925	47,872	(200)	(50)	150
	685	(685)						
	685	(685)						
15,262	16,257	995	366,053	413,925	47,872	(200)	(50)	(150)
289,493	289,493		40,181	40,181		1,323	1,323	
			24,454	24,454				
\$304,755	\$305,750	\$995	\$430,688	\$478,560	\$47,872	\$1,123	\$1,273	\$150

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Enterprise
Operating Revenues:	
Sales	\$183,389
Other	344
Total Operating Revenues	183,733
Operating Expenses:	
Salaries	98,227
Fringe Benefits	50,451
Purchased Services	7,589
Supplies and Materials	1,541
Cost of Sales	116,806
Depreciation	952
Total Operating Expenses	275,566
Operating Loss	(91,833)
Non-Operating Revenues:	
Federal Donated Commodities	19,100
Interest	216
Federal and State Subsidies	53,044
Total Non-Operating Revenues	72,360
Net Loss	(19,473)
Retained Earnings (Deficit) at Beginning of Year	(2,657)
Retained Earnings (Deficit) at End of Year	(\$22,130)

See Accompanying Notes to the General Purpose Financial Statements.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Enterprise		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Sales	\$183,900	\$183,389	(\$511)
Interest	873	297	(576)
Federal and State Subsidies	52,300	53,044	744
Other Revenue		344	344
Total Revenues	<u>237,073</u>	<u>237,074</u>	<u>1</u>
Expenses:			
Salaries	103,800	103,887	(87)
Fringe Benefits	50,428	49,966	462
Purchased Services	7,800	7,589	211
Supplies and Materials	101,825	101,209	616
Capital Outlay	2,000		2,000
Total Expenses	<u>265,853</u>	<u>262,651</u>	<u>3,202</u>
Excess of Revenues Under Expenses	(28,780)	(25,577)	3,203
Fund Equity at Beginning of Year	28,589	28,589	
Prior Year Encumbrances Appropriated	200	200	
Fund Equity at End of Year	<u>\$9</u>	<u>\$3,212</u>	<u>\$3,203</u>

See Accompanying Notes to the General Purpose Financial Statements.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Enterprise
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$183,389
Cash Received from Other Cash Receipts	344
Cash Payments for Employee Services and Benefits	(153,575)
Cash Payments to Suppliers for Goods and Services	(108,798)
Net Cash Used For Operating Activities	(78,640)
 Cash Flows from Noncapital Financing Activities:	
Federal and State Subsidies Received	53,044
 Cash Flows from Investing Activities:	
Interest	216
	(25,380)
Net Decrease in Cash and Cash Equivalents	
Cash and Cash Equivalents Beginning of Year	28,878
Cash and Cash Equivalents End of Year	\$ 3,498
 Reconciliation of Operating Loss to Net	
Cash Used For Operating Activities:	
Operating Loss	(91,833)
 Adjustments to Reconcile Operating Loss to	
Net Cash Used For Operating Activities:	
Depreciation	952
Donated Commodities Used	19,100
Changes in Assets and Liabilities:	
Increase in Inventory Held for Resale	(2,229)
Decrease in Inventory of Supplies and Materials	266
Increase in Accrued Wages and Benefits Payable	287
Decrease in Compensated Absences Payable	(4,230)
Decrease in Intergovernmental Payable	(953)
Net Cash Used For Operating Activities	\$ (78,640)

Non-Cash Transactions:

During fiscal year 2002, the Food Service Enterprise Fund received \$19,100 in donated commodities.

See Accompanying Notes to the General Purpose Financial Statements.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Hardin-Houston Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District is located in Shelby County. The School District is staffed by 48 non-certificated employees, 55 certificated full-time teaching personnel and 6 administrative employees who provide services to 936 students and other community members. The School District currently operates two instructional/support buildings.

A. Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Hardin-Houston Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 15 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

Western Ohio Computer Organization
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation
Group Rating Plan
Shelby County Schools Consortium
Ohio School Plan

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hardin-Houston Local School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in the enterprise fund and the trust fund) are accounted for through governmental funds. The following are the School District's governmental fund types:

General Fund

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

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditure for specified purposes.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Fund

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

Capital Projects Funds

The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the enterprise fund or the trust fund).

2. Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Fund

The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. Account Groups:

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

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The School District has no contributed capital. The proprietary fund's operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The full accrual basis of accounting is followed for the enterprise fund.

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations, by fund, cannot exceed estimated resources, as certified.

All funds, other than the agency fund, are required to be budgeted and appropriated. A portion of the Title VI-B, Title III, and Preschool Grant special revenue funds' grant activity that is administered by the fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the fund level for all funds, except the General Fund and the Bond Retirement Debt Service Fund. The legal level of control for these two funds is at the function level within the fund. Any budgetary modifications at the legal levels of control may only be made by resolution of the Board of Education. The Treasurer has been given the authority to further allocate the Board's appropriations to the function and/or object levels within all funds.

1. Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Shelby County Budget Commission for rate determination.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriation resolution was passed by the Board of Education.

3. Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The total of expenditures and encumbrances may not exceed the appropriation totals at any legal level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, several supplemental appropriations were legally enacted. The total supplemental appropriations were significant to the original appropriations. The original appropriations were \$6,032,450, and they changed by \$308,464, resulting in final appropriations of \$6,340,914.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device by the Board of Education during the fiscal year for all funds, other than portions of the Title VI-B, Title III, and Preschool Grant special revenue funds, and the agency fund, consistent with statutory provisions.

4. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and in the notes to the financial statements for the enterprise fund.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including the enterprise fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. The balance of the grant activity administered by the fiscal agent is presented on the balance sheet as "cash and cash equivalents with fiscal agent" and represents deposits of the Shelby County Educational Service Center.

During fiscal year 2002, investments were limited to a repurchase agreement which is reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$42,743 which includes \$13,584 assigned from other School District funds. In addition, the Capital Projects Fund and Enterprise funds also received interest in the amount of \$1,808 and \$216, respectively.

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

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the fiscal year in which services are consumed.

F. Inventory

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

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Restricted Assets

Restricted assets represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the General Fund represent unexpended grants restricted for the purchase of school buses.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have 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 capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise fund is computed using the straight-line method over an estimated useful life of ten years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

I. 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 School District will compensate the employees for the benefits through paid time off or some other means. The School 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of current service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the funds from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are considered not to have used current available financial resources. General obligation bonds and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term obligations financed by the enterprise fund are reported as liabilities in the enterprise fund.

K. Fund Balance Reserves and Designation

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. The School District also designates a portion of fund balance to indicate tentative plans for future financial resource uses that reflect managerial plans or intent. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventory of supplies and materials, property taxes, and school bus purchases. A fund designation has been established for budget stabilization amounts set-aside in excess of amount required. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

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

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

3. ACCOUNTABILITY

At June 30, 2002, the Title I Special Revenue Fund and the Food Service Enterprise Fund had deficit fund balance/retained earnings of \$1,541 and \$22,130, respectively. The General Fund regularly provides transfers to cover special revenue fund deficit balances; however, this is done when cash is needed rather than when accruals occur. The deficit in the Food Service Enterprise Fund is the result of operating revenues not supporting operating expenses. In the past, the School District has transferred money from the General Fund to help cover the cost of operations. The School District continues to monitor the situation and to make transfers if necessary.

4. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types and Expendable Trust Fund and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Non-GAAP Budgetary Basis) - Proprietary Fund Type are 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 that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).
4. The School District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets (budget basis). However, the activities of the fiscal agent are included in the special revenue funds for GAAP reporting purposes (GAAP basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures
All Governmental Fund Types and Expendable Trust Fund**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	\$257,923	(\$34,753)	\$14,219	\$401,457	(\$50)
Revenue Accruals	(5,552)	3,468	2,724	12,702	0
Expenditure Accruals	6,390	1,374	(686)	(234)	0
Prepaid Items	3,862	0	0	0	0
Unrecorded Cash	(2,315)	0	0	0	0
Non-budgeted Activity	0	6,735	0	0	0
Outstanding Encumbrances	(31,447)	(2,641)	0	0	0
Budget Basis	<u>\$228,861</u>	<u>(\$25,817)</u>	<u>\$16,257</u>	<u>\$413,925</u>	<u>(\$50)</u>

**Net Loss/Excess of Revenues Under Expenses
Proprietary Fund Type**

GAAP Basis	(\$19,473)
Revenue Accruals	89
Expense Accruals	(8,822)
Unrecorded Cash	(8)
Inventory of Supplies and Materials	(266)
Inventory Held for Resale	2229
Outstanding Encumbrances	(278)
Depreciation Expense	952
Budget Basis	<u>(\$25,577)</u>

5. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those 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 accounts, including passbook accounts.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and 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); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Protection of the School 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 the repayment of all public monies deposited with the institution.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or 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 School District had \$300 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *"Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements"*.

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$1,829,136 and the bank balance was \$1,935,225. Of the bank balance, \$300,000 was covered by federal depository insurance and \$1,635,225 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

At June 30, 2002, the School District had "cash and cash equivalents with fiscal agent" in the special revenue funds of \$3,974. The money is held by the Shelby County Educational Service Center, which is the fiscal agent for several School Districts. Since the monies are commingled, they cannot be classified by risk individually under GASB Statement No. 3. The classifications for the Shelby County Educational Service Center as a whole can be obtained by writing to Cathy Doseck, who serves as Treasurer, at 129 East Court Street, Sidney, Ohio 45365.

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School 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 School District's name. The School District had a repurchase agreement at fiscal year-end, which is a Category 3 investment, with a fair value of \$97,181.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *"Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."*

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,930,591	\$0
Cash on Hand	(300)	0
Cash with Fiscal Agent	(3,974)	0
Investment of the Cash Management Pool:		
Repurchase Agreement	(97,181)	97,181
GASB Statement No. 3	\$1,829,136	\$97,181

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes. 2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2002 real property taxes are collected in and intended to finance fiscal year 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002, and are collected in 2002 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

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

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

The assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$57,906,500	74.38%	\$60,095,730	75.64%
Personal Property--Public Utility	5,598,040	7.19%	4,841,450	6.09%
Tangible Personal Property	14,344,630	18.43%	14,517,620	18.27%
Total Assessed Value	\$77,849,170	100.00%	\$79,454,800	100.00%
Tax rate per \$1,000 of assessed valuation	\$28.50		\$28.50	

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

6. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations.

The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current fiscal year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2002, was \$97,509 in the General Fund and \$2,301 in the Bond Retirement Debt Service Fund.

7. INCOME TAX

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. Income tax revenue is credited to the General Fund (one-half of one percent) and the Permanent Improvement Capital Projects Fund (one-fourth of one percent). The General Fund tax was effective on January 1, 1991, and the Permanent Improvement Capital Projects Fund tax was effective on January 1, 1997. Both are continuing taxes.

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 School District after withholding amounts for administrative fees and estimated refunds.

8. RECEIVABLES

Receivables at June 30, 2002, consisted of both property and income taxes, accounts (student fees), accrued interest, and intergovernmental (billings for user charged services and grants). All receivables are considered collectible in full.

A summary of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund:	
Mississinawa Valley LSD Tuition	\$2,907
School Foundation Tuition	22,503
Ecot Audit Settlement	711
School Foundation Adjustment	4,673
Total General Fund	<u>30,794</u>
Special Revenue Funds:	
Title III	413
Title VI	3,365
Total Special Revenue Funds	<u>3,778</u>
Total Intergovernmental Receivables	<u><u>\$34,572</u></u>

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

9. FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$95,636
Less Accumulated Depreciation	<u>(89,998)</u>
Net Fixed Assets	<u><u>\$5,638</u></u>

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<u>Asset Category</u>	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/02</u>
Land and Improvements	\$96,403	\$0	\$0	\$96,403
Buildings and Improvements	2,160,203	0	0	2,160,203
Furniture, Fixtures and Equipment	1,212,198	165,309	118,630	1,258,877
Vehicles	520,861	159,240	61,202	618,899
Totals	<u>\$3,989,665</u>	<u>\$324,549</u>	<u>\$179,832</u>	<u>\$4,134,382</u>

There was no significant construction in progress at June 30, 2002.

10. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Nationwide Insurance Company for property and fleet insurance.

Insurance coverage provided includes the following:

Building and Contents-replacement cost (\$500 deductible)	\$13,587,000
Inland Marine/Electronic Data Coverage	557,930
Crime Insurance (\$500 deductible)	15,000
Automobile Liability	2,000,000
Uninsured Motorists (\$250 deductible)	500,000

During fiscal year 2002, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 15).

The types and amounts of coverage provided by the Ohio School Plan are as follows:

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

10. RISK MANAGEMENT (Continued)

Education General Liability:	
Each Occurrence	\$1,000,000
Personal and Advertising Injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	500,000
Medical Expense - Any One Person/Each Accident	10,000
General Aggregate Limit	3,000,000
Products - Completed Operations Limit	1,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Educational Legal Liability:	
Per Occurrence	1,000,000
Aggregate Limit	2,000,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant change in insurance coverage from the last fiscal year.

B. Workers' Compensation

For fiscal year 2002, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (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 State statute per Chapter 3309 of the Ohio Revised Code.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$55,221, \$28,381, and \$31,756, respectively; 51 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$27,097 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by State statute per Chapter 3307 of the Ohio Revised Code.

STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$234,134, \$241,366, and \$135,059, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$39,800 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining Board members contribute to SERS.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

12. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$110,906 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$102,964.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements, board policy, and State laws. Eligible classified employees and administrators earn ten to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 228 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 57 days.

B. Insurance Benefits

The School District provides medical and dental insurance through Anthem Blue Cross and Blue Shield to its full-time employees. Optical insurance is provided by VisionPlus of America. Life and accidental death and dismemberment insurance is provided through Medical Life Insurance Company.

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	<u>Amount Outstanding 6/30/01</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/02</u>
School Improvement Bonds 1989 7.625%	\$295,000	\$0	\$25,000	\$270,000
Energy Conservation Loan 1999 5.95%	<u>173,813</u>	<u>0</u>	<u>10,250</u>	<u>163,563</u>
Total Long-Term Bonds/Loans	468,813	0	35,250	433,563
Intergovernmental Payable	58,389	56,361	58,389	56,361
Compensated Absences Payable	<u>336,031</u>	<u>670</u>	<u>0</u>	<u>336,701</u>
Total Long-Term Obligations	<u><u>\$863,233</u></u>	<u><u>\$57,031</u></u>	<u><u>\$93,639</u></u>	<u><u>\$826,625</u></u>

The School Improvement Bonds were issued October 1, 1988, for \$598,950. The unvoted general obligation bonds were issued for the purpose of school improvements. The bonds will mature December 1, 2011, and will be retired from the Bond Retirement Debt Service Fund.

The Energy Conservation Loan was issued July 7, 1998, for \$199,096. The loan was issued for the purpose of making energy conservation improvements. The loan will mature March 1, 2013, and will be retired from the General Fund.

The intergovernmental payable represents contractually required pension contributions paid outside the available period. Intergovernmental payable and compensated absences will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$7,150,932, the energy conservation debt margin was \$551,530 and the unvoted debt margin was \$79,455 at June 30, 2002.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation debt, including loans outstanding at June 30, 2002, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$35,877	\$29,128	\$65,005
2004	36,538	26,560	63,098
2005	37,241	23,951	61,192
2006	37,986	21,299	59,285
2007	38,775	18,603	57,378
2008-2012	227,517	47,735	275,252
2013	19,629	733	20,362
Total	<u>\$433,563</u>	<u>\$168,009</u>	<u>\$601,572</u>

15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Western Ohio Computer Organization - The School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of public school districts in a geographic area determined by the Ohio Department of Education. The 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 school districts.

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Payments to WOCO are made from the General Fund. During fiscal year 2002, the School District paid \$20,388 to WOCO. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2002, the School District paid \$3,869 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

**15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2002, the School District paid \$16,986 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (Plan) was established as an insurance purchasing pool.

The Plan's business and affairs are conducted by the Southwestern Ohio Educational Purchasing Cooperative and the participating members of the Plan. The Benefits Administrator of SOEPC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Shelby County Schools Consortium - The Shelby County Consortium is an insurance purchasing pool among several local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The consortium acts together to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider Anthem and Community National Assurance Company. The Group is governed by an administrative committee consisting of the superintendent from each participating school district and the service center. The degree of control exercised by any participating school district is limited to its representation on the committee. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 North Ludlow Street, Dayton, Ohio 45402.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

**15. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Ohio School Plan – The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

16. CONTINGENCIES

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 adverse effect on the overall financial position of the School District at June 30, 2002.

17. SET-ASIDE CALCULATIONS

The School 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 fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

For the fiscal year ended June 30, 2002, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

17. SET-ASIDE CALCULATIONS (Continued)

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks/ Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2001	\$15,739	(\$61,082)	(\$35,435)
Current Fiscal year Set-aside Requirement	0	119,250	119,250
Offsets	0	(192,713)	0
Qualifying Disbursements	(15,739)	0	(86,367)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>(\$134,545)</u>	<u>(\$2,552)</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

The School District had offsets and qualifying disbursements for capital improvements and textbooks/instructional materials during the fiscal year that reduced the set-aside amounts below zero. These extra amounts may be used to reduce the set-aside requirements of future fiscal years.

18. SIGNIFICANT CONTRACTUAL COMMITMENTS

As of June 30, 2002, the School District had contractual purchase commitments as follows:

Company	Project	Contract Amount	Amount Expended	Balance at 6/30/02
Fanning & Howey Associates, Inc.	Professional Services For Bond Assistance	\$15,000	\$10,500	\$4,500
Fanning & Howey Associates, Inc.	Sewage Assessment	15,000	2,240	12,760
Totals		<u>\$30,000</u>	<u>\$12,740</u>	<u>\$17,260</u>

19. STATE SCHOOL FUNDING DECISION

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

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

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

20. SUBSEQUENT EVENTS

On October 12, 2002, the District accepted the master plan for Ohio School Facilities Commission Expedited Local Partnership Program for a PreK-12 school with a projected cost of \$23,160,494 (58% state share and 42% local share). On December 9, 2002, the Board approved the motion to enter into a land purchase agreement with Chris and Allen Rehfus for approximately 55 acres for the building of a PreK-12 school building. On January 16, 2003, the County Auditor certified 9.87 mills for a proposed issue of \$13,600,000 of bonds for the construction of a new elementary/middle school. The District's voters will vote on this issue May 6, 2003.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$733,500	\$77,756	\$289,493	\$64,635
Cash and Cash Equivalents with Fiscal Agent		10,709		
Receivables:				
Property and Other Taxes	1,611,079		73,105	
Accounts	4,259			
Intergovernmental		3,848		
Accrued Interest	1,455			727
Income Tax	176,365			87,151
Inventory of Supplies and Materials	19,637			
Prepaid Items	8,154			
Inventory Held for Resale				
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	52,553			
Fixed Assets				
Accumulated Depreciation				
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Long-Term Debt				
Amount to be Provided for Retirement of General Long-Term Debt				
Total Assets and Other Debits	<u>2,607,002</u>	<u>92,313</u>	<u>362,598</u>	<u>152,513</u>
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts Payable	10,203	35		
Contracts Payable				
Accrued Wages and Benefits Payable	438,718	8,462		
Intergovernmental Payable	88,479	161		1,400
Deferred Revenue	1,551,084		68,765	13,889
Due to Students				
Compensated Absences Payable	20,590			
Energy Conservation Loan Payable				
General Obligation Bonds Payable				
Total Liabilities	<u>2,109,074</u>	<u>8,658</u>	<u>68,765</u>	<u>15,289</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved (Deficit)				
Fund Balance:				
Reserved for Encumbrances	8,640	3,983		24,454
Reserved for Inventory of Supplies and Materials	19,637			
Reserved for Property Taxes	92,669		4,340	
Reserved for Budget Stabilization	15,739			
Reserved for School Bus Purchases	36,814			
Designated for Budget Stabilization	38,784			
Unreserved, Undesignated	285,645	79,672	289,493	112,770
Total Fund Equity (deficit) and Other Credits	<u>497,928</u>	<u>83,655</u>	<u>293,833</u>	<u>137,224</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$2,607,002</u>	<u>\$92,313</u>	<u>\$362,598</u>	<u>\$152,513</u>

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$28,878	\$37,396			\$1,231,658 10,709
				1,684,184
				4,259
				3,848
				2,182
				263,516
1,043				20,680
				8,154
6,616				6,616
				52,553
96,203 (89,612)		\$3,989,665		4,085,868 (89,612)
			\$293,833	293,833
			569,400	569,400
<u>43,128</u>	<u>37,396</u>	<u>3,989,665</u>	<u>863,233</u>	<u>8,147,848</u>
				10,238
16,807				463,987
17,964			58,389	166,393
	36,073			1,633,738
				36,073
11,014			336,031	367,635
			173,813	173,813
			295,000	295,000
<u>45,785</u>	<u>36,073</u>		<u>863,233</u>	<u>3,146,877</u>
		3,989,665		3,989,665
(2,657)				(2,657)
				37,077
				19,637
				97,009
				15,739
				36,814
				38,784
	1,323			768,903
<u>(2,657)</u>	<u>1,323</u>	<u>3,989,665</u>		<u>5,000,971</u>
<u>\$43,128</u>	<u>\$37,396</u>	<u>\$3,989,665</u>	<u>\$863,233</u>	<u>\$8,147,848</u>

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Property Taxes	\$1,606,012		\$72,066			\$1,678,078
Income Taxes	392,529			\$195,966		588,495
Intergovernmental	2,970,627	\$198,533	7,403	48,500		3,225,063
Interest	83,272			2,378		85,650
Tuition and Fees	59,667					59,667
Rent	1,000					1,000
Extracurricular Activities		61,625				61,625
Gifts and Donations	1,025	6,008			\$250	7,283
Miscellaneous	15,734					15,734
Total Revenues	5,129,866	266,166	79,469	246,844	250	5,722,595
Expenditures:						
Current:						
Instruction:						
Regular	2,562,424	37,387		168,725		2,768,536
Special	410,596	102,850				513,446
Vocational	57,026					57,026
Support Services:						
Pupils	205,985	20,622				226,607
Instructional Staff	254,915	26,327				281,242
Board of Education	7,792					7,792
Administration	402,100	232				402,332
Fiscal	161,811	500	1,482	2,863		166,656
Business	1,457					1,457
Operation and Maintenance of Plant	434,653			34,565		469,218
Pupil Transportation	411,364	974				412,338
Central		5,000				5,000
Operation of Non-Instructional Services	189	1,205			1,200	2,594
Extracurricular Activities	93,799	54,016				147,815
Capital Outlay				21,922		21,922
Debt Service:						
Principal Retirement	9,666		25,000			34,666
Interest and Fiscal Charges	10,704		23,447			34,151
Total Expenditures	5,024,481	249,113	49,929	228,075	1,200	5,552,798
Excess of Revenues Over (Under) Expenditures	105,385	17,053	29,540	18,769	(950)	169,797
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	1,600					1,600
Total Other Financing Sources (Uses)	1,600					1,600
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	106,985	17,053	29,540	18,769	(950)	171,397
Fund Balances at Beginning of Year - - Restated	393,071	66,602	264,293	118,455	2,273	844,694
Decrease in Reserve for Inventory	(2,128)					(2,128)
Fund Balances at End of Year	\$497,928	\$83,655	\$293,833	\$137,224	\$1,323	\$1,013,963

See Accompanying Notes to the General Purpose Financial Statements.

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**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON GAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property and Other Taxes	\$1,545,170	\$1,589,060	\$43,890			
Income Taxes	364,800	364,367	(433)			
Intergovernmental	2,949,570	2,894,166	(55,404)	\$140,519	\$140,519	
Interest	83,000	84,072	1,072			
Tuition and Fees	84,300	90,030	5,730			
Rent	1,000	1,000				
Extracurricular Activities				63,270	61,711	(\$1,559)
Gifts and Donations	1,000	1,025	25	2,751	6,008	3,257
Miscellaneous	5,700	5,662	(38)			
Total Revenues	<u>5,034,540</u>	<u>5,029,382</u>	<u>(5,158)</u>	<u>206,540</u>	<u>208,238</u>	<u>1,698</u>
Expenditures:						
Current:						
Instruction:						
Regular	2,439,867	2,434,291	5,576	48,044	38,510	9,534
Special	402,948	401,649	1,299	77,190	63,786	13,404
Vocational	56,473	54,986				
Other	113,000	107,433	5,567			
Support Services:						
Pupils	211,046	202,178	8,868	17,532	16,084	1,448
Instructional Staff	277,940	244,897	33,043	22,080	15,219	6,861
Board of Education	7,780	7,669	111			
Administration	384,583	379,906	4,677			
Fiscal	176,735	158,101	18,634	500	500	
Business	2,200	1,457	743			
Operation and Maintenance of Plant	440,860	436,066	4,794			
Pupil Transportation	405,926	405,788	138			
Central				5,000	5,000	
Operation of Non-Instructional Services	1,000	189	811	1,132	1,112	20
Extracurricular Activities	104,317	94,178	10,139	56,786	56,460	326
Capital Outlay	19,887		19,887			
Debt Service:						
Principal Retirement	9,666	9,666				
Interest and Fiscal Charges	10,704	10,704				
Total Expenditures	<u>5,064,932</u>	<u>4,949,158</u>	<u>115,774</u>	<u>228,264</u>	<u>196,671</u>	<u>31,593</u>
Excess of Revenues Over (Under) Expenditures	<u>(30,392)</u>	<u>80,224</u>	<u>110,616</u>	<u>(21,724)</u>	<u>11,567</u>	<u>33,291</u>
Other Financing Sources :						
Refund of Prior Year Expenditures	100	10,072	9,972			
Proceeds from Sale of Fixed Assets	1,500	1,600	100			
Total Other Financing Sources	<u>1,600</u>	<u>11,672</u>	<u>10,072</u>			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	<u>(28,792)</u>	<u>91,896</u>	<u>120,688</u>	<u>(21,724)</u>	<u>11,567</u>	<u>33,291</u>
Fund Balances at Beginning of Year	628,751	628,751		56,551	56,551	
Prior Year Encumbrances Appropriated	45,563	45,563		5,619	5,619	
Fund Balances at End of Year	<u>\$645,522</u>	<u>\$766,210</u>	<u>\$120,688</u>	<u>\$40,446</u>	<u>\$73,737</u>	<u>\$33,291</u>

See Accompanying Notes to the General Purpose Financial Statements.

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$78,904	\$71,501	(\$7,403)						
	7,403	7,403	\$181,600	\$181,884	\$284			
			48,500	48,500				
			2,500	2,217	(283)			
							\$250	\$250
<u>78,904</u>	<u>78,904</u>		<u>232,600</u>	<u>232,601</u>	<u>1</u>		<u>250</u>	<u>250</u>
			188,595	168,725	19,870			
1,800	1,482	318	3,100	2,650	450			
			70,000	59,019	10,981			
						\$1,200	1,200	
			70,400	70,400				
25,900	25,000	900						
24,000	23,447	553						
<u>51,700</u>	<u>49,929</u>	<u>1,771</u>	<u>332,095</u>	<u>300,794</u>	<u>31,301</u>	<u>1,200</u>	<u>1,200</u>	
<u>27,204</u>	<u>28,975</u>	<u>1,771</u>	<u>(99,495)</u>	<u>(68,193)</u>	<u>31,302</u>	<u>(1,200)</u>	<u>(950)</u>	<u>250</u>
27,204	28,975	1,771	(99,495)	(68,193)	31,302	(1,200)	(950)	250
260,518	260,518		12,836	12,836		2,273	2,273	
			95,538	95,538				
<u>\$287,722</u>	<u>\$289,493</u>	<u>\$1,771</u>	<u>\$8,879</u>	<u>\$40,181</u>	<u>\$31,302</u>	<u>\$1,073</u>	<u>\$1,323</u>	<u>\$250</u>

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Enterprise
Operating Revenues:	
Sales	\$187,051
Other Revenues	141
Total Operating Revenues	<u>187,192</u>
Operating Expenses:	
Salaries and Wages	94,317
Fringe Benefits	46,406
Purchased Services	3,746
Supplies and Materials	3,817
Cost of Sales	123,389
Depreciation	2,907
Total Operating Expenses	<u>274,582</u>
Operating Loss	<u>(87,390)</u>
Non-Operating Revenues:	
Federal Donated Commodities	17,784
Interest	1,184
Federal and State Subsidies	52,103
Total Non-Operating Revenues	<u>71,071</u>
Net Loss	(16,319)
Retained Earnings at Beginning of Year - Restated	<u>13,662</u>
Retained Earnings (Deficit) at End of Year	<u><u>(\$2,657)</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (NON GAAP BUDGETARY BASIS)
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Enterprise		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Sales	\$184,012	\$187,051	\$3,039
Interest	300	1,237	937
Federal and State Subsidies	56,300	52,193	(4,107)
Other		141	141
Total Revenues	<u>240,612</u>	<u>240,622</u>	<u>10</u>
Expenses:			
Salaries and Wages	89,028	88,939	89
Fringe Benefits	44,221	44,122	99
Purchased Services	4,050	3,946	104
Supplies and Materials	113,847	111,455	2,392
Capital Outlay	5,850	5,837	13
Total Expenses	<u>256,996</u>	<u>254,299</u>	<u>2,697</u>
Excess of Revenues Under Expenses	(16,384)	(13,677)	2,707
Retained Earnings at Beginning of Year	39,816	39,816	
Prior Year Encumbrances Appropriated	2,450	2,450	
Retained Earnings at End of Year	<u>\$25,882</u>	<u>\$28,589</u>	<u>\$2,707</u>

See Accompanying Notes to the General Purpose Financial Statements.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Enterprise
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$187,051
Other Operating Receipts	141
Cash Payments for Employee Services and Benefits	(133,061)
Cash Payments to Supplies for Goods and Services	(118,598)
Net Cash Used For Operating Activities	(64,467)
Cash Flows from Noncapital Financing Activities:	
Federal and State Subsidies Received	52,193
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(2,440)
Cash Flows from Investing Activities:	
Interest	1,184
Net Decrease in Cash and Cash Equivalents	(13,530)
Cash and Cash Equivalents Beginning of Year	42,408
Cash and Cash Equivalents End of Year	28,878
Reconciliation of Operating Loss to Net Cash Used For Operating Activities:	
Operating Loss	(87,390)
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities:	
Depreciation	2,907
Donated Commodities Received	17,784
Changes in Assets and Liabilities:	
Increase in Inventory of Supplies and Materials	(514)
Increase in Inventory Held for Resale	(4,530)
Decrease in Accounts Payable	(386)
Increase in Accrued Wages and Benefits Payable	3,034
Increase in Intergovernmental Payable	2,194
Increase in Compensated Absences Payable	2,434
Net Cash Used For Operating Activities	(\$64,467)
Non-Cash Noncapital Financing Activities:	
Advances from the General Fund in the amount of \$23,015 made in prior years to the uniform school supplies fund were converted to permanent transfers.	

See Accompanying Notes to the General Purpose Financial Statements.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Hardin-Houston Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The School District is located in Shelby County. It is staffed by 44 non-certificated employees and 55 certificated full-time teaching personnel and 5 administrative employees who provide services to 936 students and other community members. The School District currently operates 2 instructional/support buildings.

A reporting entity is comprised of the primary government, component units and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Hardin-Houston Local School District, this includes general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with three jointly governed organizations and two insurance purchasing pools. These organizations are discussed in Notes 17 and 18 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

Western Ohio Computer Organization
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation
Group Rating Plan
Shelby County Schools Consortium

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hardin-Houston Local School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

- 1. Governmental Fund Types-** Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

General Fund

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

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund

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

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Type

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds

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

3. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. Account Groups

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

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include 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. (See Note 7.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before 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.

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The Title VI-B, Title III and Preschool special revenue fund's grant activity that is administered by a fiscal agent is not budgeted by the School District.

The legal level of budgetary control is at the fund level for all funds, except the General fund and the bond retirement debt service fund. The legal level of control for these two funds is at the function level with the fund. Any budgetary modifications at these levels may only be made by resolution of the Board of Education.

1. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Shelby County Budget Commission for rate determination.

2. Estimated Resources

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure.

On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

3. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, except as previously stated, which are the legal levels of budgetary control.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within the General fund and the bond retirement debt service fund must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources.

During the year, several supplemental appropriations were legally enacted; however, they were not significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than the agency funds, consistent with statutory provisions.

4. Encumbrances

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

5. Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. During fiscal year 2001, investments were limited to a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value, that is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The balance of various grants administered by the fiscal agent is presented on the balance sheet as "cash and cash equivalents with fiscal agents" and represents deposits of the Shelby County Educational Service Center.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General fund during fiscal year 2001 amounted to \$83,272, which includes \$21,540 assigned from other School District funds. The capital projects funds also received interest in the amount of \$2,378. In addition, the enterprise funds received \$1,184 in interest.

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

E. Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

G. Restricted Assets

Restricted assets in the General fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent resources restricted for the purchase of buses, and amounts required by statute to be set-aside by the School District to create a reserve for budget stabilization.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the General fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed 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 School District maintains a capitalization threshold of five hundred dollars. The School District does not have 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 capitalized. Interest incurred during the construction of General fixed assets is also not capitalized.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets in the General fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of ten years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

I. 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 School District will compensate the employees for the benefits through paid time off or some other means. The School 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of current service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the General long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid with current available financial resources. Bonds and long-term loans are reported as a liability of the General long-term obligations account group until due.

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

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance Reserves and Designation

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

A fund designation has been established for budget stabilization amounts set-aside in excess of amounts required. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

M. 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.

N. Total Columns on General Purpose Financial Statements

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

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY

For fiscal year 2001, the School District has implemented GASB Statement No.33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues". This restatement and an interfund advance write-off had the following effect on fund balances previously reported on June 30, 2000.

	General	Capital Projects	Enterprise
Prior year fund balances	\$410,288	\$118,648	\$(9,353)
Income Tax Receivable Per GASB 33	5,798	(193)	
Interfund Receivable/Payable (Advance Write-off)	(23,015)	-	23,015
Restated amount at June 30, 2000	<u>\$393,071</u>	<u>\$118,455</u>	<u>\$13,662</u>

The restatement had the following effect on the excess of revenues/net income over (under) expenditures and other financing uses as previously reported for the year ended June 30, 2000:

	General	Capital Projects	Enterprise
Previously Reported	\$330,766	\$13,320	\$28,324
Income Tax Receivable	5,798	(193)	0
Interfund Receivable/Payable	(23,015)		23,015
Restated amount at June 30, 2000	<u>\$313,549</u>	<u>\$13,127</u>	<u>\$51,339</u>

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

4. ACCOUNTABILITY

At June 30, 2001, the Food Service enterprise fund had deficit retained earnings of \$2,657. The deficit in the fund was the result of accumulated losses. The School District is analyzing fund operations to determine appropriate steps to alleviate the deficit. The General fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non GAAP Budgetary Basis) - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual; (Non GAAP Budgetary Basis) – Proprietary Fund Type are 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 that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. The School District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets. However, the activities of the fiscal agent that pertain to Hardin-Houston Local School District are included in the special revenue funds for GAAP reporting purposes.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

Excess of Revenues and Other Financing Sources Over (Under) Expenditures All Governmental Fund Types and Expendable Trust Fund					
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	\$106,985	\$17,053	\$29,540	\$18,769	(\$950)
Revenue Accruals	(85,828)	896	(565)	(14,243)	0
Expenditure Accruals	90,247	(1,660)	0	(48,265)	0
Prepaid Items	336	0	0	0	0
Unrecorded Cash	(4,584)	0	0	0	0
Net Revenues/Expenditures for Non budgeted Funds	0	(704)	0	0	0
Advances	0	0	0	0	0
Encumbrances	(15,260)	(4,018)	0	(24,454)	0
Budget Basis	<u>\$91,896</u>	<u>\$11,567</u>	<u>\$28,975</u>	<u>(\$68,193)</u>	<u>(\$950)</u>

Net Loss/Excess of Revenues Under All Enterprise Funds	Expenses
GAAP Basis	(16,319)
Revenue Accruals	143
Expense Accruals	2,812
Inventory of Supplies and Materials	514
Federal Donated Commodities	(3,907)
Inventory Held for Resale	4,530
Depreciation Expense	2,907
Capital Outlay	(2,440)
Encumbrances	(200)
Budget Basis	<u>(\$13,677)</u>

6. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those 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 accounts including passbook accounts.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount no to exceed twenty-five percent of the interim monies available for investment at any one time.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, 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 the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligation, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or 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 School District had \$300 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "*Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*".

The "cash and cash equivalents with fiscal agent" of \$10,709 shown in the special revenue funds is maintained with the Shelby County Educational Service Center. Disclosures regarding this amount can be obtained from their annual report.

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$1,090,350 and the bank balance was \$1,172,799. Of the bank balance, \$200,000 was covered by federal depository insurance; and \$972,799 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School 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 School District's name. The School District had a repurchase agreement at year end, which is a Category 3 investment, with a fair value of \$193,561.

The classification of cash and cash equivalents on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting.*"

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$1,294,920	\$0
Cash on Hand	(300)	0
Cash and Cash Equivalents		
With Fiscal Agent	(10,709)	0
Investments:		
Repurchase Agreement	<u>(193,561)</u>	<u>193,561</u>
GASB Statement 3	<u>\$1,090,350</u>	<u>\$193,561</u>

7. PROPERTY TAXES

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

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2001 for real and public utility property taxes represents collections of calendar 2000 taxes. Property tax payments received during calendar 2001 for tangible personal property (other than public utility property) is for calendar 2001 taxes.

2001 real property taxes are levied after April 1, 2001 on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2001 public utility property taxes became a lien December 31, 2000, are levied after April 1, 2001, and are collected in 2001 with property taxes.

2001 tangible personal property taxes are levied after April 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are twenty-five percent of true value.

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

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

The assessed values upon which fiscal year 2001 taxes were collected are:

	2000 Second- Half Collections		2001 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$48,165,640	69%	\$57,906,500	75%
Personal Property – Public Utility	6,175,410	9%	5,598,040	7%
Tangible Personal Property	15,820,935	22%	14,344,630	18%
Total Assessed Value	\$70,161,985	100%	\$77,849,170	100%
Tax rate per \$1,000 of assessed valuation	\$28.50		\$28.50	

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2001, are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became measurable as of June 30, 2001, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2001, was \$92,669 in the General fund and \$4,340 in the Bond Retirement fund fund.

8. INCOME TAX

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. Income tax revenue is credited to the General fund (one-half of one percent) and permanent improvement capital projects fund (one-fourth of one percent.) The General fund tax was effective on January 1, 1991, and the Permanent Improvement capital projects fund tax was effective January 1, 1997. Both are continuing taxes. 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 School District after withholding amounts for administrative fees and estimated refunds.

9. RECEIVABLES

Receivables at June 30, 2001, consisted of both property and income taxes, accounts (student fees), accrued interest, and intergovernmental grants. All receivables are considered collectible in full. A summary of the principal intergovernmental receivables follows:

	Amount
Special Revenue Fund:	
Title VI	\$3,848

10. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2001, follows:

Furniture and Equipment	\$96,203
Less Accumulated Depreciation	(89,612)
Net Fixed Assets	\$6,591

A summary of the changes in General fixed assets during fiscal year 2001 follows:

Asset Category	Restated Balance at 6/30/00	Additions	Deletions	Balance at 6/30/01
Land and Improvements	\$36,516	\$59,887	\$0	\$96,403
Buildings and Improvements	2,136,753	23,450	0	2,160,203
Furniture, Fixtures and Equipment	1,060,963	183,248	32,013	1,212,198
Vehicles	540,150	0	19,289	520,861
Totals	\$3,774,382	\$266,585	\$51,302	\$3,989,665

There was no significant construction in progress at June 30, 2001.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

11. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School District contracted with Nationwide/Wausau Insurance for property, general liability and automobile insurance. Coverages provided by Nationwide/Wausau Insurance are as follows:

Building and Contents - replacement cost (\$500 deductible)	\$13,587,000
Inland Marine/Electronic Data Coverage	557,930
Boiler and Machinery (\$1,000 deductible)	8,025,000
Crime Insurance (\$500 deductible)	15,000
Automobile Liability	2,000,000
Uninsured Motorists	500,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
Umbrella Additional coverage	3,000,000

There have been no significant reductions in insurance coverage from last year. Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Workers' Compensation

For fiscal year 2001, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund".

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp, Incorporated of Ohio provides administrative, cost control and actuarial services to the GRP.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (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, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund pension obligations. 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$28,381, \$31,756, and \$53,055, respectively; 34 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$18,666 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the General long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$241,366, \$135,059, and \$116,133, respectively; 84 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$38,776 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement Systems. As of June 30, 2001, one of the members of the Board of Education has elected Social Security. The Boards' liability is 6.2 percent of wages paid. The other Board of Education members elected the School Employees Retirement System.

13. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds is included in the employer contribution rate currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$114,331 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, the balance in the Fund was \$3.256 billion. For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000.

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 2001, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge during the 2001 fiscal year equaled \$84,261.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses.

Expenses for health care for the fiscal year ended June 30, 2001, were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

14. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements, board policy and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 224 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 56 days.

B. Insurance Benefits

The School District provides to its full-time employees medical and dental insurance through Blue Cross and Blue Shield. Optical insurance is provided by VisionPlus of America. Life and accidental death/dismemberment insurance is provided through Medical Life Insurance Company.

15. LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/00	Additions	Deductions	Amount Outstanding 6/30/01
1988 School Improvement Bond-7.625%	\$320,000	\$0	\$25,000	\$295,000
1999 Energy Conservation Loan -5.95%	183,479	0	9,666	173,813
Intergovernmental Payable	61,611	58,389	61,611	58,389
Compensated Absences	332,050	3,981	0	336,031
Total General Long-Term Obligations	\$897,140	\$62,370	\$96,277	\$863,233

School Improvement General Obligation Bonds – In 1988, Hardin-Houston Local School District issued \$598,950 in unvoted general obligation bonds for the purpose of making school improvements. The bonds were issued for a twenty-five year period with final maturity at December 1, 2011. The debt will be paid from the Bond Retirement debt service fund.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

15. LONG-TERM OBLIGATIONS (Continued)

The Energy Conservation Loan was established July 7, 1998, for \$199,096. The note was awarded and sold to Firststar, Dayton, Ohio with a beginning principal date December 1, 1998 and ending March 1, 2013 (15 year period). The loan will be paid from the General fund.

Intergovernmental payable and compensated absences and will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period.

The School District's overall legal debt margin was \$6,711,425. The energy conservation debt margin was \$526,830 and the unvoted debt margin was \$77,849 at June 30, 2001.

Principal and interest requirements to retire general obligation debt, including the loan outstanding at June 30, 2001, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2002	\$ 35,254	\$ 31,657	\$
2003	35,877	29,128	65,005
2004	36,538	26,559	63,097
2005	37,241	23,951	61,192
2006	37,986	21,300	59,286
2007-2011	217,775	63,332	281,107
2012-2013	<u>68,142</u>	<u>3,741</u>	<u>71,883</u>
Totals	<u>\$468,813</u>	<u>\$199,668</u>	<u>\$668,48</u>

16. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Hardin-Houston Local School District as of and for the fiscal year ended June 30, 2001.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$187,192	0	\$187,192
Depreciation Expense	2,907	0	2,907
Operating Loss	(75,643)	(11,747)	(87,390)
Federal Donated Commodities	17,784	0	17,784
Interest	1,184	0	1,184
Federal and State Subsidies	52,103	0	52,103
Net Loss	(4,572)	(11,747)	(16,319)
Fixed Asset Additions	2,440	0	2,440
Net Working Capital (Deficit)	1,766	0	1,766
Total Assets	43,128	0	43,128
Long-Term Compensated Absences Payable	11,014	0	11,014
Total Equity (Deficit)	(2,657)	0	(2,657)
Encumbrances Outstanding at June 30, 2001	200	0	200

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization - The School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of public school districts in a geographic area determined by the Ohio Department of Education.

The 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 school districts.

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. The School District paid WOCO \$17,571 for services provided during the year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. During fiscal year 2001, the School District paid \$4,611 to the SOEPC from the General fund. Information can be obtained from Robert Brown, Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. All Superintendents except those from the educational service centers vote on the representatives after the nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All members are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets are distributed to the federal government, or to a state or local government, for a public purpose. During fiscal year 2001, the School District paid \$731 to SOITA from the General fund. Information can be obtained from Steve Strouse, Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

18. INSURANCE PURCHASING POOLS

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (Plan) was established as an insurance purchasing pool.

The Plan's business and affairs are conducted by the Southwestern Ohio Educational Purchasing Cooperative and the participating members of the Plan. The Benefits Administrator of SOEPC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Shelby County Schools Consortium - The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience.

The Consortium acts together to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently. Each school district pays monthly premiums to the provider, Anthem Blue Cross/Blue Shield and Medical Life Insurance Company. The Group is governed by an administrative committee consisting of the superintendent from each participating school district and the educational service center. The degree of control exercised by any participating school district is limited to its representation on the committee. During fiscal year 2001, Hardin-Houston Local School District paid \$465,056 and \$7,833 respectively, from the General fund.

Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Pinnacle Advisory Group, 131 North Ludlow Street, Dayton, Ohio 45402.

19. SET-ASIDE CALCULATIONS

The School 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. The School District also receives monies designated for school bus purchases. This amount is shown as a reserve for bus purchases.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30,2000	\$0	\$0	\$53,680
Current Year Set-aside Requirement	116,110	116,110	0
Reduction in Requirement Based on			
Revised Legislation	0	0	(37,941)
Offsets	0	(177,192)	0
Qualifying Disbursements	<u>(151,545)</u>	<u>0</u>	<u>0</u>
Total	<u>\$(35,435)</u>	<u>(\$61,082)</u>	<u>\$15,739</u>
Cash Balance Carried Forward to FY 2002	<u>\$(35,435)</u>	<u>(\$61,082)</u>	<u>\$15,739</u>

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

19. SET-ASIDE CALCULATIONS (Continued)

The School District had offsets and qualifying disbursements for textbooks and instructional materials and capital acquisition during the year that reduced the set-aside amounts below zero. These extra amounts may be used to reduce the set-aside requirement in future fiscal years. The total reserve balance for the three set-asides at the end of the fiscal year was \$15,739.

20. CONTRACTUAL COMMITMENTS

As of June 30, 2001, the School District had contractual purchase commitments as follows:

Company	Project	Contract Amount	Amount Expended	Balance at June 30, 2001
Kremer Roofing, Inc.	Re-roof gym complex	<u>\$24,454</u>	<u>-0-</u>	<u>\$24,454</u>

21. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2001.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

22. STATE SCHOOL FUNDING DECISION

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

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

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Auditor of State Betty Montgomery

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

Hardin-Houston Local School District
Shelby County
5300 Houston Road
Houston, Ohio 45333

To the Members of the Board of Education:

We have audited the financial statements of Hardin-Houston Local School District, Shelby County, (the District) as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated February 28, 2003 during which the District implemented Governmental Accounting Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated February 28, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 28, 2003.

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Hardin-Houston Local School District
Shelby County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 28, 2003



**Auditor of State
Betty Montgomery**

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HARDIN-HOUSTON LOCAL SCHOOL DISTRICT

SHELBY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 1, 2003**