



**JIM PETRO**  
**AUDITOR OF STATE**  

---

**STATE OF OHIO**





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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State



**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

Harrison Hills City School District  
Harrison County  
422 Normal Street  
P.O. Box 356  
Hopedale, Ohio 43976

To the Board of Education:

We have audited the accompanying general purpose financial statements of Harrison Hills City School District, Harrison County (the District) as of and for the year ended June 30, 2002, 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 Harrison Hills City School District, Harrison County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type and its nonexpendable trust fund for the year in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2002 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.

Our report was performed for the purpose of forming an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized, cursive script.

**Jim Petro**  
Auditor of State

December 13, 2002



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**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

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

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<b>ASSETS AND OTHER DEBITS</b>			
ASSETS:			
Equity in pooled cash and cash equivalents	\$ 2,548,966	\$ 405,675	\$ 647,649
Equity in pooled cash and cash equivalents - nonexpendable trust fund			
Cash with fiscal agent			
Receivables (net of allowances of uncollectibles):			
Property taxes - current & delinquent	4,487,064		431,738
Accounts	671		
Accrued interest	7,807		290
Interfund loan receivable	176,273		
Due from other governments		15,265	
Materials and supplies inventory	111,950		
Prepayments	57,000		
Restricted assets:			
Equity in pooled cash and cash equivalents	868,614		
Property, plant and equipment (net of accumulated depreciation where applicable)			
OTHER DEBITS:			
Amount to be provided for retirement of general long-term obligations			
<b>Total assets and other debits</b>	<b>\$ 8,258,345</b>	<b>\$ 420,940</b>	<b>\$ 1,079,677</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>			
LIABILITIES:			
Accounts payable	\$ 169,371	\$ 24,685	\$ 41,412
Contracts payable			22,382
Accrued wages and benefits	936,306	172,267	
Compensated absences payable	45,840		
Pension obligation payable	158,666	22,266	
Interfund loan payable		176,273	
Claims payable			
Deferred revenue	4,228,366	1,539	431,738
Due to other governments	77,257	13,337	
Due to students			
Capital lease obligation payable			
Total liabilities	5,615,806	410,367	495,532
EQUITY AND OTHER CREDITS:			
Investment in general fixed assets			
Contributed capital			
Retained earnings (accumulated deficit): unreserved			
Fund balances:			
Reserved for encumbrances	544,088	22,530	285,248
Reserved for materials and supplies inventory	111,950		
Reserved for prepayments	57,000		
Reserved for tax revenue unavailable for appropriation	258,698		
Reserved for principal endowment			
Reserved for BWC refunds	73,694		
Reserved for textbooks	291,683		
Reserved for capital acquisition	503,237		
Unreserved:			
Designated for budget stabilization	78,109		
Undesignated (deficit)	724,080	(11,957)	298,897
Total equity and other credits	2,642,539	10,573	584,145
<b>Total liabilities, equity and other credits</b>	<b>\$ 8,258,345</b>	<b>\$ 420,940</b>	<b>\$ 1,079,677</b>

*The notes to the general purpose financial statements are an integral part of this statement.*

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 24,656	\$ 65	\$ 67,775			\$ 3,694,786
		396,132			396,132
	1,354,096				1,354,096
53					4,918,802
		627			724
					8,724
44,003					176,273
19,115					59,268
					131,065
					57,000
					868,614
59,825			\$ 13,307,345		13,367,170
				\$ 1,144,926	1,144,926
<b>\$ 147,652</b>	<b>\$ 1,354,161</b>	<b>\$ 464,534</b>	<b>\$ 13,307,345</b>	<b>\$ 1,144,926</b>	<b>\$ 26,177,580</b>
\$ 491		\$ 2,155			\$ 238,114
		-			22,382
40,941		-			1,149,514
22,729		-		997,557	1,066,126
20,571		-		86,261	287,764
		-			176,273
	\$ 680,030	-			680,030
8,904		-			4,670,547
2,303		2,207			95,104
		65,068			65,068
		-		61,108	61,108
<u>95,939</u>	<u>680,030</u>	<u>69,430</u>		<u>1,144,926</u>	<u>8,512,030</u>
			\$ 13,307,345		13,307,345
147,720					147,720
(96,007)	674,131				578,124
					851,866
					111,950
					57,000
					258,698
		394,604			394,604
					73,694
					291,683
					503,237
					78,109
		500			1,011,520
<u>51,713</u>	<u>674,131</u>	<u>395,104</u>	<u>13,307,345</u>		<u>17,665,550</u>
<b>\$ 147,652</b>	<b>\$ 1,354,161</b>	<b>\$ 464,534</b>	<b>\$ 13,307,345</b>	<b>\$ 1,144,926</b>	<b>\$ 26,177,580</b>

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON 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**

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
<b>Revenues:</b>					
From local sources:					
Taxes	\$ 3,984,007		\$ 386,125		\$ 4,370,132
Earnings on investments	107,333		3,076		110,409
Extracurricular	16,440	\$ 141,570			158,010
Other local revenues	26,580	10,795			37,375
Intergovernmental - State	7,547,623	538,068	106,194		8,191,885
Intergovernmental - Federal		1,153,992			1,153,992
Total revenue	<u>11,681,983</u>	<u>1,844,425</u>	<u>495,395</u>		<u>14,021,803</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	5,518,917	619,047	62,916		6,200,880
Special	1,099,694	630,346			1,730,040
Vocational	307,486	235			307,721
Support services:					
Pupil	534,131	198,007			732,138
Instructional staff	177,007	126,319			303,326
Board of Education	103,975				103,975
Administration	1,075,907	45,765			1,121,672
Fiscal	383,175		18,114		401,289
Operations and maintenance	856,171	16,578			872,749
Pupil transportation	940,618	18,945	6,681		966,244
Central	69,038				69,038
Extracurricular activities	111,845	166,314			278,159
Facilities acquisition and construction	227,802	45,128	111,680		384,610
Debt service:					
Principal retirement	10,531				10,531
Interest and fiscal charges	5,601				5,601
Total expenditures	<u>11,421,898</u>	<u>1,866,684</u>	<u>199,391</u>		<u>13,487,973</u>
Excess (deficiency) of revenues over (under) expenditures	<u>260,085</u>	<u>(22,259)</u>	<u>296,004</u>		<u>533,830</u>
Other financing sources (uses):					
Operating transfers in	43,830	1,011			44,841
Operating transfers out	(1,015)	(43,830)			(44,845)
Proceeds from sale of fixed assets	800		39,973		40,773
Total other financing sources (uses)	<u>43,615</u>	<u>(42,819)</u>	<u>39,973</u>		<u>40,769</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	303,700	(65,078)	335,977		574,599
Fund balances, July 1	2,380,765	75,651	248,168	\$ 500	2,705,084
Decrease in reserve for inventory	(41,926)				(41,926)
<b>Fund balances, June 30</b>	<u>\$ 2,642,539</u>	<u>\$ 10,573</u>	<u>\$ 584,145</u>	<u>\$ 500</u>	<u>\$ 3,237,757</u>

The notes to the general purpose financial statements are an integral part of this statement.

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HARRISON COUNTY, OHIO

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

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
From local sources:						
Taxes	\$ 3,140,791	\$ 3,921,532	\$ 780,741			
Earnings on investments	91,762	114,572	22,810			
Extracurricular	12,802	15,984	3,182	\$ 140,608	\$ 141,277	\$ 669
Other local revenues	19,500	24,347	4,847	10,744	10,795	51
Intergovernmental - State	6,056,036	7,561,450	1,505,414	532,086	534,618	2,532
Intergovernmental - Federal				1,084,562	1,089,724	5,162
Total revenues	<u>9,320,891</u>	<u>11,637,885</u>	<u>2,316,994</u>	<u>1,768,000</u>	<u>1,776,414</u>	<u>8,414</u>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	5,575,960	5,536,366	39,594	641,318	603,323	37,995
Special	1,095,719	1,075,745	19,974	832,357	636,307	196,050
Vocational	323,844	316,311	7,533	555	235	320
Support services:						
Pupil	549,924	543,979	5,945	206,695	192,480	14,215
Instructional staff	185,803	180,235	5,568	167,341	128,890	38,451
Board of Education	162,507	149,690	12,817			
Administration	1,135,489	1,103,236	32,253	53,358	47,319	6,039
Fiscal	399,837	377,533	22,304			
Operations and maintenance	1,069,329	1,029,476	39,853	18,633	18,633	
Pupil transportation	1,054,443	1,023,720	30,723	21,207	19,357	1,850
Central	100,782	95,004	5,778			
Extracurricular activities	131,200	113,786	17,414	193,699	181,590	12,109
Facilities acquisition and construction	487,048	485,483	1,565	45,128	45,128	
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total expenditures	<u>12,271,885</u>	<u>12,030,564</u>	<u>241,321</u>	<u>2,180,291</u>	<u>1,873,262</u>	<u>307,029</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,950,994)</u>	<u>(392,679)</u>	<u>2,558,315</u>	<u>(412,291)</u>	<u>(96,848)</u>	<u>315,443</u>
Other financing sources (uses):						
Advances in	22,546	28,150	5,604	27,867	28,000	133
Advances out	(28,000)	(28,000)		(28,150)	(28,150)	
Operating transfers in	408,833	510,462	101,629	68,621	68,948	327
Operating transfers out	(466,190)	(466,107)	83	(111,767)	(111,767)	
Proceeds from sale of fixed assets	641	800	159			
Refund of prior year expenditure	61	76	15	54,080	54,337	257
Total other financing sources (uses)	<u>(62,109)</u>	<u>45,381</u>	<u>107,490</u>	<u>10,651</u>	<u>11,368</u>	<u>717</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(3,013,103)</u>	<u>(347,298)</u>	<u>2,665,805</u>	<u>(401,640)</u>	<u>(85,480)</u>	<u>316,160</u>
Fund balances, July 1	2,515,995	2,515,995		353,666	353,666	
Prior year encumbrances appropriated	<u>546,626</u>	<u>546,626</u>		<u>100,822</u>	<u>100,822</u>	
<b>Fund balances, June 30</b>	<b><u>\$ 49,518</u></b>	<b><u>\$ 2,715,323</u></b>	<b><u>\$ 2,665,805</u></b>	<b><u>\$ 52,848</u></b>	<b><u>\$ 369,008</u></b>	<b><u>\$ 316,160</u></b>

The notes to the financial statements are an integral part of this statement.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 10,881	\$ 5,941	\$ (4,940)	\$ 244,778 2,003	\$ 386,125 3,160	\$ 141,347 1,157	\$ 3,396,450 93,765 153,410 30,244	\$ 4,313,598 117,732 157,261 35,142	\$ 917,148 23,967 3,182 4,898
			67,320	106,194	38,874	6,655,442 1,084,562	8,202,262 1,089,724	1,546,820 5,162
<u>10,881</u>	<u>5,941</u>	<u>(4,940)</u>	<u>314,101</u>	<u>495,479</u>	<u>181,378</u>	<u>11,413,873</u>	<u>13,915,719</u>	<u>2,501,177</u>
			93,354	74,295	19,059	6,310,632 1,928,076 324,399	6,213,984 1,712,052 316,546	96,648 216,024 7,853
						756,619 353,144 162,507	736,459 309,125 149,690	20,160 44,019 12,817
			20,000	18,114	1,886	1,188,847 419,837	1,150,555 395,647	38,292 24,190
			77,795	6,681	71,114	1,087,962 1,153,445 100,782	1,048,109 1,049,758 95,004	39,853 103,687 5,778
			665,578	661,516	4,062	324,899 1,197,754	295,376 1,192,127	29,523 5,627
5,846 95	5,846 95					5,846 95	5,846 95	
<u>5,941</u>	<u>5,941</u>		<u>856,727</u>	<u>760,606</u>	<u>96,121</u>	<u>15,314,844</u>	<u>14,670,373</u>	<u>644,471</u>
<u>4,940</u>			<u>(542,626)</u>	<u>(265,127)</u>	<u>277,499</u>	<u>(3,900,971)</u>	<u>(754,654)</u>	<u>3,145,648</u>
						50,413 (56,150) 477,454 (577,957)	56,150 (56,150) 579,410 (577,874)	5,737  101,956 83
			25,340	39,973	14,633	25,981 54,141	40,773 54,413	14,792 272
			<u>25,340</u>	<u>39,973</u>	<u>14,633</u>	<u>(26,118)</u>	<u>96,722</u>	<u>122,840</u>
			(517,286)	(225,154)	292,132	(3,927,089)	(657,932)	3,268,488
			209,233 314,528	209,233 314,528		3,078,894 961,976	3,078,894 961,976	
			<u>\$ 6,475</u>	<u>\$ 298,607</u>	<u>\$ 292,132</u>	<u>\$ 113,781</u>	<u>\$ 3,382,938</u>	<u>\$ 3,268,488</u>

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN RETAINED EARNINGS /FUND BALANCE  
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
<b>Operating revenues:</b>				
Tuition and fees	\$ 17,134			\$ 17,134
Sales/charges for services	326,592	\$ 1,967,994	\$ 3,515	2,298,101
Investment earnings			8,975	8,975
Other operating revenues	3,875		4,733	8,608
 Total operating revenues	347,601	1,967,994	17,223	2,332,818
<b>Operating expenses:</b>				
Personal services	379,285	159,667		538,952
Contract services	13,463		2,288	15,751
Materials and supplies	376,126		8,041	384,167
Depreciation	4,051			4,051
Claims expense		2,098,137		2,098,137
Other		70	12,913	12,983
 Total operating expenses	772,925	2,257,874	23,242	3,054,041
 Operating loss	(425,324)	(289,880)	(6,019)	(721,223)
<b>Nonoperating revenues:</b>				
Operating grants	337,247			337,247
Federal commodities	40,353			40,353
Interest revenue	281	53,793		54,074
 Total nonoperating revenues	377,881	53,793		431,674
 Net loss before operating transfers	(47,443)	(236,087)	(6,019)	(289,549)
 Operating transfers in	4			4
 Net loss	(47,439)	(236,087)	(6,019)	(289,545)
 Retained earnings (accumulated deficit)/ fund balance, July 1	(48,568)	910,218	400,623	1,262,273
 <b>Retained earnings (accumulated deficit)/ fund balance, June 30</b>	<b>\$ (96,007)</b>	<b>\$ 674,131</b>	<b>\$ 394,604</b>	<b>\$ 972,728</b>

*The notes to the general purpose financial statements are an integral part of this statement.*



**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Cash flows from operating activities:				
Cash received from tuition and fees	\$ 17,134			\$ 17,134
Cash received from sales/service charges	326,592	\$ 1,967,994	\$ 3,515	2,298,101
Cash received from other operations	3,875		4,733	8,608
Cash payments for personal services	(373,952)	(159,667)		(533,619)
Cash payments for contract services	(5,863)		(2,393)	(8,256)
Cash payments for materials and supplies	(311,726)		(5,886)	(317,612)
Cash payments for claims expenses		(2,004,659)		(2,004,659)
Cash payments for other expenses		(350)	(12,913)	(13,263)
Net cash used in operating activities	<u>(343,940)</u>	<u>(196,682)</u>	<u>(12,944)</u>	<u>(553,566)</u>
Cash flows from noncapital financing activities:				
Cash received from operating grants	301,088			301,088
Operating transfers in from other funds	4			4
Net cash provided by noncapital financing activities	<u>301,092</u>			<u>301,092</u>
Interest received	318	53,793	9,483	63,594
Net cash provided by investing activities	<u>318</u>	<u>53,793</u>	<u>9,483</u>	<u>63,594</u>
Net decrease in cash and cash equivalents	(42,530)	(142,889)	(3,461)	(188,880)
Cash and cash equivalents at beginning of year	67,186	1,497,050	399,593	1,963,829
Cash and cash equivalents at end of year	<u>\$ 24,656</u>	<u>\$ 1,354,161</u>	<u>\$ 396,132</u>	<u>\$ 1,774,949</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (425,324)	\$ (289,880)	\$ (6,019)	\$ (721,223)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	4,051			4,051
Federal donated commodities	40,353			40,353
Interest reported as operating income			(8,975)	(8,975)
Changes in assets and liabilities:				
Decrease in materials and supplies inventory	28,577			28,577
Decrease in accounts receivable	10,086			10,086
Increase (decrease) in accounts payable	(10,920)	(280)	2,050	(9,150)
Decrease in accrued wages and benefits	(2,581)			(2,581)
Increase in compensated absences payable	4,133			4,133
Increase in pension obligation payable	1,478			1,478
Increase in claims payable		93,478		93,478
Increase in deferred revenue	3,904			3,904
Increase in due to other governments	2,303			2,303
Net cash used in operating activities	<u>\$ (343,940)</u>	<u>\$ (196,682)</u>	<u>\$ (12,944)</u>	<u>\$ (553,566)</u>

The notes to the general purpose financial statements are an integral part of this statement.

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**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District was established in 1971 through the consolidation of existing land areas and school districts. The District serves an area of approximately 386 square miles. It is located primarily in Harrison County, however small portions of the District are located in Carroll County, Tuscarawas County, Belmont County, and Jefferson County. The District is the 274<sup>th</sup> largest in the State of Ohio (among 705 public and community school districts) in terms of enrollment. It is staffed by 114 non-certificated employees, 162 certificated employees, and 11 administrators who provide services to 2,022 students and other community members. The District currently operates 8 instructional buildings, 1 administrative building, and 1 garage.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements (GPFS) of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The District's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial 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 of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**Jointly Governed Organizations**

**Ohio Mid-Eastern Regional Education Service Agency**

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) is a computer service organization whose primary function is to provide information technology services to its member school districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by the OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

The OME-RESA is one of twenty-three regional service organizations serving over 600 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member school districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio school districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

The OME-RESA is owned and operated by forty-nine member school districts in ten different Ohio counties. The member school districts are comprised of public school districts and county boards of education. Each member district pays an annual fee for services provided by the OME-RESA. The OME-RESA is governed by a board of directors which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of the OME-RESA is limited to its voting authority and any representation it may have on the board of directors.

The OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of the OME-RESA's member districts, and acts in the capacity of fiscal agent for the OME-RESA.

**Belmont Harrison Joint Vocational School**

The Belmont Harrison Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the nine participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Belmont Harrison Joint Vocational School, Treasurer's Office, at 110 Fox/Shannon Place, St. Clairsville, Ohio 43950.

**Insurance Purchasing Pool**

**Ohio School Boards Association Workers' Compensation Group Rating Plan**

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**B. Fund Accounting**

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

**1. Governmental Funds**

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

**General Fund**

The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds**

The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures 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**

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

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**2. Proprietary Funds**

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types:

**Enterprise Funds**

The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body 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 (b) where the governing body has 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.

**Internal Service Funds**

The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

**3. Fiduciary Funds**

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include a nonexpendable trust fund, an expendable trust fund and an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. See Note 3 for agency fund accruals which, in another fund type, would be recognized in the combined balance sheet.

**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 general nature, the following account groups are used.

**General Fixed Assets Account Group**

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

**General Long-Term Obligations Account Group**

This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**C. Measurement Focus/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 current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Property taxes measurable as of June 30, 2002 and delinquent property taxes, whose availability is indeterminate and are intended to finance fiscal 2003 operations, have been recorded as deferred revenues, except for that portion which is available from the County Auditor as advanced at June 30. This amount is recognized as revenue.

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

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds and the nonexpendable trust fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue on the combined balance sheet.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

**D. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2002 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.



**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 17 provides a reconciliation of the budgetary and GAAP basis of accounting for governmental fund types and Note 14 provides disclosure of the encumbrances outstanding for proprietary fund types at fiscal year end.

**E. Cash and Investments**

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

During fiscal year 2002, investments were limited to STAR Ohio and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2002 amounted to \$107,333, which includes \$25,222 assigned from other District funds.

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 original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

**F. Fixed Assets and Depreciation**

**General Fixed Assets Account Group**

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 except for textbooks and library books. This is based primarily on the uniqueness of these items to school operations. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

**Proprietary Funds**

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<b>Asset</b>	<b>Life (years)</b>
Furniture, fixtures and equipment	5 - 20

**G. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

**H. Accrued Liabilities and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, 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. In general, payments made more than sixty days after year-end are considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

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

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

**I. Fund Balance Reserves/Designations**

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. Fund equity reserves are established for encumbrances, inventories of materials and supplies, prepayments, tax revenue unavailable for appropriation, principal endowment, Bureau of Workers' Compensation (BWC) refunds, textbooks, and capital acquisition. The reserve for property tax advance unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute. The District reports amounts set-aside by the School Board for budget stabilization as a designation of fund balance in the general fund.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**J. Interfund Transactions**

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2002.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 2002.

An analysis of interfund transactions is presented in Note 5.

**K. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance reserve has also been established (See Note 19).

**L. Estimates**

The preparation of the GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

**M. Inventory**

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**N. Contributions of Capital**

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at fiscal year-end. There were no capital contributions received by the enterprise funds in 2002. Contributed capital in the enterprise funds at June 30, 2002, is \$147,720.

Because the District did not prepare general purpose financial statements in accordance with GAAP prior to fiscal year 1992, the exact amount of contributed capital cannot be determined. Consequently, only those amounts that have been specifically identified have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to proprietary funds have been classified as retained earnings.

**O. Memorandum Only - Total Columns**

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Deficit Fund Balances/Retained Earnings**

Fund balance/retained earnings at June 30, 2002 included the following individual fund deficits:

<u>Special Revenue Fund</u>	<u>Deficit Balance</u>
Disadvantaged Pupil Impact Aid	\$ 67,546
District Managed Activities	179,094
Preschool	239
Miscellaneous Federal Grants	836
 <u>Enterprise Fund</u>	
Food Service	113,670

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end. The deficit fund balances in the Disadvantaged Pupil Impact Aid, Preschool and Miscellaneous Federal Grants special revenue funds are caused by the application of GAAP, namely in the reporting of a liability for accrued wages, benefit and retirement obligations attributable to the fiscal year. These deficit balances will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The deficit fund balance in the District Managed Activities special revenue fund is due to the reporting of an "advance in" from another fund as an interfund loan payable rather than as an "other financing source". This deficit will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

The deficit retained earnings in the Food Service enterprise fund is caused by the application of GAAP, namely in the reporting of a liability for accrued wages, benefit and retirement obligations, and compensated absences attributable to the fiscal year. This deficit retained earnings will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

**B. Agency Funds**

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

<b>Liabilities</b>	
Accounts payable	\$2,651

**4. EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the 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 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 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.

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

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**4. EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)**

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

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

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. 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 with fiscal agent:* The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2002 was \$1,354,096.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**4. EQUITY IN POOLED CASH 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 and Reverse Repurchase Agreements".

*Deposits:* At year-end, the carrying amount of the District's deposits was \$(878,807) and the bank balance was \$19,123. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". The entire bank balance was covered by federal depository insurance.

*Investments:* Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<b>Category 3</b>	<b>Reported Amount</b>	<b>Fair Value</b>
Repurchase agreement	<u>\$1,072,267</u>	\$1,072,267	\$1,072,267
Investment in STAR Ohio		<u>4,766,072</u>	<u>4,766,072</u>
Total investments		<u>\$5,838,339</u>	<u>\$5,838,339</u>

The classification of cash and cash equivalents on the combined balance sheet 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 on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<b>Cash and Cash Equivalents/Deposits</b>	<b>Investments</b>
GASB Statement No. 9	\$ 6,313,628	\$ -
Investments of the cash management pool:		
Repurchase agreement	(1,072,267)	1,072,267
Investment in STAR Ohio	(4,766,072)	4,766,072
Cash with fiscal agent	<u>(1,354,096)</u>	-
GASB Statement No. 3	<u>\$ (878,807)</u>	<u>\$5,838,339</u>



**HARRISON HILLS CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**5. INTERFUND TRANSACTIONS**

A. The District had the following short-term interfund loans receivable and payable at June 30, 2002:

	<b>Interfund Receivable</b>	<b>Interfund Payable</b>
General Fund	\$176,273	\$
<u>Special Revenue Fund</u>		
District Managed Activities	_____ -	176,273
Totals	<u>\$176,273</u>	<u>\$176,273</u>

B. The following is a summarized breakdown of the District's operating transfers for fiscal year 2002:

	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$43,830	\$ 1,015
<u>Special Revenue Funds</u>		
Public School Support	662	-
District Managed Activities	349	
Telecommunications Grant	-	43,830
<u>Enterprise Fund</u>		
Food Service	_____ 4	_____ -
Totals	<u>\$44,845</u>	<u>\$44,845</u>

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2002 taxes were collected was \$177,002,250. Agricultural/residential and public utility/minerals real estate represented \$109,688,570 or 61.97% of this total; commercial & industrial real estate represented \$21,043,250 or 11.89% of this total; public utility tangible represented \$27,367,290 or 15.46% of this total and general tangible property represented \$18,903,140 or 10.68% of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$34.75 per \$1,000.00 of assessed valuation for operations and \$3.00 per \$1,000.00 of assessed valuation for permanent improvements.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**6. PROPERTY TAXES - (Continued)**

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

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

The District receives property taxes from the following Counties: Harrison, Carroll, Tuscarawas, Belmont and Jefferson. The respective County Auditors periodically remit to the District their portion of the taxes collected with final settlement in March and September. Such collections are available to pay current period liabilities.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. The amount available as an advance at June 30, 2002, was \$258,698 in the general fund. This amount has been recorded as revenue.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for tax advance unavailable for appropriation. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

**7. RECEIVABLES**

Receivables at June 30, 2002, consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, interfund loans, and intergovernmental grants and entitlements (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental receivables have been reported as "due from other governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of receivables follows:

	<b>Amounts</b>
<u>General Fund</u>	
Taxes - current and delinquent	\$4,487,064
Accounts	671
Accrued interest	7,807
Interfund loan	176,273
 <u>Special Revenue Funds</u>	
Due from other governments	15,265
 <u>Capital Projects Funds</u>	
Taxes - current and delinquent	431,738
Accrued interest	290

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**7. RECEIVABLES (Continued)**

<u>Enterprise Funds</u>	
Accounts	53
Due from other governments	44,003

**8. FIXED ASSETS**

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

	Balance July 1, 2001	Increase	Decrease	Balance June 30, 2002
Land/improvements	\$ 10,561	\$ -	\$ -	\$ 10,561
Buildings/improvements	8,356,435	-	-	8,356,435
Furniture/equipment	1,708,993	214,282	-	1,923,275
Vehicles	1,764,577	110,782	(25,500)	1,849,859
Text/library books	<u>896,556</u>	<u>270,659</u>	<u>-</u>	<u>1,167,215</u>
<b>Total</b>	<b><u>\$12,737,122</u></b>	<b><u>\$595,723</u></b>	<b><u>\$(25,500)</u></b>	<b><u>\$13,307,345</u></b>

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$ 210,973
Less: accumulated depreciation	<u>(151,148)</u>
<b>Net fixed assets</b>	<b><u>\$ 59,825</u></b>

**9. CAPITAL LEASES**

In a prior year, the District entered into a capitalized lease for copier equipment and a modular classroom. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined general purpose financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of equipment and buildings have been capitalized in the general fixed assets account group in the amount of \$78,087. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal and interest payments in fiscal year 2002 totaled \$10,531 and \$5,524, respectively, in the general fund.

**HARRISON HILLS CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**9. CAPITAL LEASES (Continued)**

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002.

Fiscal Year Ending June 30, 2002	Amount
2003	\$ 16,055
2004	16,055
2005	14,561
2006	10,080
2007	10,080
2008	<u>8,400</u>
Total	75,231
Less: amount representing interest	<u>(14,123)</u>
Present value of minimum lease payments	<u>\$ 61,108</u>

**10. LONG-TERM OBLIGATIONS**

A. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are reported net of actual increases and decreases due to the practicality of determining these values. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	Balance July 1, 2001	Increase	Decrease	Balance June 30, 2002
Compensated absences	\$986,389	\$33,027	\$(21,859)	\$997,557
Pension obligation payable	88,895	86,261	(88,895)	86,261
Capital lease obligation	<u>71,639</u>	<u>-</u>	<u>(10,531)</u>	<u>61,108</u>
Total	<u>\$1,146,923</u>	<u>\$119,288</u>	<u>\$(121,285)</u>	<u>\$1,144,926</u>

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$15,930,203 and an unvoted debt margin of \$177,002.

**11. EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees, office staff, administrative staff, and certified employees have the following sick leave and severance policies:

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**11. EMPLOYEE BENEFITS (Continued)**

**Severance Liability**

<b>Employee Status</b>	<b>Maximum Allowable Sick Leave Balance (Days)</b>	<b>Paid at 1/4 of Unused Sick Leave Balance</b>	<b>Paid at 1/8 of Unused Sick Leave Balance</b>	<b>Total Allowable Maximum Severance (Days)</b>
Classified	265	First 130 Days	Any Balance Over 130 Days	49
Office Staff	278	First 140 Days	Any Balance Over 140 Days	52
Administrative	292	First 140 Days	Any Balance Over 140 Days	54
Certified	290	First 140 Days	Any Balance Over 140 Days	53

**B. Life Insurance**

The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

**12. NOTE ACTIVITY**

The following represents the note activity for the fiscal year ended June 30, 2002:

	<b>Balance July 1, 2001</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2002</b>
<u>General Fund</u>				
Energy Conservation Note - 6.44%	<u>\$5,846</u>	<u>\$ -</u>	<u>\$(5,846)</u>	<u>\$ -</u>

The energy conservation note was intended to be repaid from the savings derived from utility bills upon completion of the energy savings measures. Payments of principal and interest relating to this liability are recorded as expenditures in the general fund.

**13. RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has contracted with Utica Insurance for property and inland marine coverage. Nationwide Insurance provides the district with professional liability coverage and fleet insurance. For professional liability coverage, the District contracted with Ohio School Plan via Harcum-Hyre Insurance Agency. Coverage provided by Utica Insurance are as follows:

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**13. RISK MANAGEMENT (Continued)**

Building and Contents - replacement cost (\$1,000 deductible)	\$39,973,469
Inland Marine Coverage (\$100 deductible)	120,000
Boiler and Machinery (\$1,000 deductible)	39,973,469
Crime Insurance	2,000
Musical Instruments	50,000

Coverages provided by Nationwide Insurance are as follows:

General Liability	
Per occurrence	\$1,000,000
Total per year	3,000,000
Automobile Liability (\$250 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

**B. Workers' Compensation**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the 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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**C. Employee Group Medical, Dental, Vision and Life Insurance**

Medical/surgical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 49 school districts within the OME-RESA consortium, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$680,030 reported in the internal service fund at June 30, 2002, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**13. RISK MANAGEMENT (Continued)**

**C. Employee Group Medical, Dental, Vision and Life Insurance (Continued)**

Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2002	\$586,552	\$2,098,137	\$(2,004,659)	\$680,030
2001	318,691	1,813,259	(1,545,398)	586,552

**14. SEGMENT INFORMATION - ENTERPRISE FUNDS**

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies and adult education. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

	Food Service	Uniform School Supplies	Adult Education	Total
Operating revenue	\$ 330,467	\$ 17,134	\$ -	\$ 347,601
Operating expenses				
less depreciation	705,449	63,425	-	768,874
Depreciation	4,051	-	-	4,051
Operating loss	(379,033)	(46,291)	-	(425,324)
Donated commodities	40,353	-	-	40,353
Operating grants	337,247	-	-	337,247
Net income/(loss)	(1,148)	(46,291)	-	(47,439)
Contributed capital	147,720	-	-	147,720
Net working capital	(3,046)	14,692	2,971	14,617
Total assets	129,605	15,076	2,971	147,652
Total liabilities	95,555	384	-	95,939
Total equity	34,050	14,692	2,971	51,713
Encumbrances				
outstanding at June 30	909	520	-	1,429

**15. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

**HARRISON HILLS CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**15. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$219,109, \$207,307, and \$185,484, respectively; 51.60% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$106,056, 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 District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$865,906, \$838,002, and \$802,752, respectively; 82.68% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$149,952, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

**16. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement 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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$278,327 during fiscal 2002.



**HARRISON HILLS CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**16. POSTEMPLOYMENT BENEFITS (Continued)**

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$163,681 during the 2002 fiscal year.

**17. BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

**HARRISON HILLS CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**17. BUDGETARY BASIS OF ACCOUNTING**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	<b>Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>
Budget basis	\$(347,298)	\$(85,480)	\$ -	\$(225,154)
Net adjustment for revenue accruals	44,098	68,011	(5,941)	(84)
Net adjustment for expenditure accruals	(104,793)	(40,637)	5,941	234,555
Net adjustment for other financing sources/(uses)	(1,766)	(54,187)	-	-
Encumbrances (budget basis)	<u>713,459</u>	<u>47,215</u>	<u>-</u>	<u>326,660</u>
GAAP basis	<u>\$ 303,700</u>	<u>\$(65,078)</u>	<u>\$ -</u>	<u>\$ 335,977</u>

**18. CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

**B. Litigation**

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

**HARRISON HILLS CITY SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**18. CONTINGENCIES (Continued)**

**C. 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.

**19. STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	<b>Textbooks</b>	<b>Capital Acquisition</b>	<b>BWC Refunds</b>
Set-aside cash balance as of June 30, 2001	\$ 404,370	\$ 499,437	\$73,694
Current year set-aside requirement	232,345	232,345	-
Qualifying disbursements	<u>(345,032)</u>	<u>(228,545)</u>	<u>-</u>
Total	<u>\$ 291,683</u>	<u>\$ 503,237</u>	<u>\$73,694</u>
Cash balance carried forward to FY 2003	<u>\$ 291,683</u>	<u>\$ 503,237</u>	<u>\$73,694</u>

A schedule of the restricted assets at June 30, 2002 follows:

Amount restricted for BWC refunds	\$ 73,694
Amount restricted for textbooks	291,683
Amount restricted for capital acquisition	<u>503,237</u>
Total restricted assets	<u>\$868,614</u>

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**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY  
SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
Passed through Ohio Department of Education:						
Nutrition Cluster:						
Food Distribution Program		10.550		\$40,968		\$40,353
National School Breakfast Program		10.553	\$70,044		\$70,044	
National School Lunch Program		10.555	208,402		208,402	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>278,446</u>	<u>40,968</u>	<u>278,446</u>	<u>40,353</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
Passed through Ohio Department of Education:						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-EC-01	84.027	4,032		4,020	
	6B-SF-00				64	
	6B-SF-01				33,564	
	6B-SF-02		261,277		214,091	
			265,309		251,739	
Special Education - Preschool Grant	PG-S1-02	84.173	17598		15,181	
	PG-S1-01				373	
			17,598		15,554	
Total Special Education Cluster			<u>282,907</u>		<u>267,293</u>	
Assistive Tech Infusion	AT-S1-02	84.352	747		747	
Title VI R Classroom Reduction Grant	CR-S1-02	84.340	102,478		90,754	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-01	84.010			189,499	
	C1-S1-01C		67,873		67,873	
	C1-S1-02		668,991		478,344	
			736,864		735,716	
Innovative Educational Program Strategies	C2-S1-01	84.298			2,015	
	C2-S1-02		10,393		9,017	
			10,393		11,032	
Drug-Free Schools Grant	DR-S1-01	84.186			982	
	DR-S1-02		7,887		5,595	
			7,887		6,577	
Eisenhower Professional Development Grant	MS-S1-00	84.281			59	
	MS-S1-01				1,344	
	MS-S1-02		16,321		13,446	
			16,321		14,849	
Continuous Improvement / Performance Incentive	G2-S2-01	84.276			34,959	
Total Department of Education			<u>1,157,597</u>		<u>1,161,927</u>	
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
Passed through the Ohio Department of Mental Retardation and Developmental Disabilities						
Medical Assistance Program (CAFS)	N/A	93.778	54,277		60,492	
Total Department of Mental Retardation and Developmental Disabilities			<u>54,277</u>		<u>60,492</u>	
<b>Total Federal Awards Receipts and Expenditures</b>			<u>\$1,490,320</u>	<u>\$40,968</u>	<u>\$1,500,865</u>	<u>\$40,353</u>

*The accompanying notes to this schedule are an integral part of this schedule.*

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2002**

**A. SIGNIFICANT ACCOUNTING POLICIES**

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

**B. FOOD DISTRIBUTION**

Non monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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Youngstown, Ohio 44503  
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Facsimile 330-797-9949  
www.auditor.state.oh.us

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

Harrison Hills City School District  
Harrison County  
422 Normal Street  
P.O. Box 356  
Hopedale, Ohio 43976

To the Board of Education:

We have audited the accompanying financial statements of Harrison Hills City School District as of and for the year ended June 30, 2002, and have issued our report thereon dated December 13, 2002. 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 Harrison Hills City School 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-11234-001.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Harrison Hills City School 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 a certain matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to management of the District in a separate letter dated December 13, 2002.

Harrison Hills City School District  
Harrison County  
Report of Independent Accountants on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

**Jim Petro**  
Auditor of State

December 13, 2002





STATE OF OHIO  
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Harrison Hills City School District  
Harrison County  
422 Normal Street  
P.O. Box 356  
Hopedale, Ohio 43976

To the Board of Education:

**Compliance**

We have audited the compliance of Harrison Hills City School District with the types of compliance requirements described in U.S. *Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. Harrison Hills City School District's major federal program is identified in the summary of the auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Harrison Hills City School District's management. Our responsibility is to express an opinion on Harrison Hills City School District's compliance based on our audit.

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

In our opinion, Harrison Hills City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

**Internal Control Over Compliance**

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

Harrison Hills City School District  
Report on Compliance With Requirements Applicable to its Major  
Federal Program and Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
Page 2

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

December 13, 2002

**HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2002**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA# 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding</b>	<b>2002-11234-001</b>
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The Student Council of the high school conducted a magazine sale as a fund raiser. The activity advisor, Cindy Lewis, collected all receipts from students for deposit to the bank. The collections from two separate days were prepared for deposit to the bank but were lost before the deposits were made. Both deposits were in the possession of Ms. Lewis until the times of each loss. The amounts of \$3,304.52 and \$454.08, respectively, were unaccounted for. The total amount of public money collected and not accounted for is \$3,758.60.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code § 117.28**, a finding for recovery is being issued for public monies that have been collected and unaccounted for against Cindy Lewis, Activity Advisor, in the amount of \$3,758.60 and in favor of the Student Activity Fund. The amount of the finding has been repaid in full to the District on December 13, 2002.

HARRISON HILLS CITY SCHOOL DISTRICT  
HARRISON COUNTY

SCHEDULE OF FINDINGS  
*OMB CIRCULAR A -133 §.505*  
JUNE 30, 2002  
(Continued)

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>	
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None	
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STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**HARRISON HILLS CITY SCHOOL DISTRICT**

**HARRISON 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  
FEBRUARY 11, 2003**