



**Auditor of State
Betty Montgomery**

HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Hillsboro City School District
Highland County
338 West Main Street
Hillsboro, Ohio 45133

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Hillsboro City School District, Highland County, Ohio (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 District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form 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 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 13, 2003

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Hillsboro City School District
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Equity in Pooled Cash and Investments	\$501,572	\$694,989	\$304,546	\$15,582,474
Restricted Equity in Pooled Cash and Investments	75,952	0	0	0
Receivables:				
Taxes	5,523,886	151,420	972,668	0
Intergovernmental	3,030	110,246	0	0
Accounts	16,318	0	0	0
Accrued Interest	907	0	0	0
Interfund Receivable	155,954	0	0	7,586
Inventory	0	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Other Debits:				
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0	0
Total Assets & Other Debits	\$6,277,619	\$956,655	\$1,277,214	\$15,590,060
Liabilities, Fund Equity & Other Credits:				
Liabilities:				
Accounts Payable	\$148,764	\$78,184	\$0	\$80,094
Accrued Wages & Benefits	1,530,399	63,226	0	0
Compensated Absences Payable	159,231	3,595	0	0
Interfund Payable	0	3,000	0	2,060
Deferred Revenue	4,285,387	224,023	908,924	0
Due to Students	0	0	0	0
Claims Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Notes Payable	0	0	3,650,000	0
Total Liabilities	6,123,781	372,028	4,558,924	82,154
Fund Equity & Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	307,608	89,385	0	802,179
Reserved for Property Tax Advances	331,375	8,278	63,744	0
Reserved for Set-Asides	75,952	0	0	0
Designated for Budget Reserve	217,825	0	0	0
Unreserved & Undesignated	(778,922)	486,964	(3,345,454)	14,705,727
Total Fund Equity (Deficit) & Other Credits	153,838	584,627	(3,281,710)	15,507,906
Total Liabilities, Fund Equity & Other Credits	\$6,277,619	\$956,655	\$1,277,214	\$15,590,060

See accompanying notes.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$141,598	\$28,227	\$100,525	\$0	\$0	\$17,353,931
0	0	0	0	0	75,952
0	0	0	0	0	6,647,974
0	0	0	0	0	113,276
36	0	251	0	0	16,605
0	0	0	0	0	907
0	0	0	0	0	163,540
5,960	0	0	0	0	5,960
46,376	0	0	11,464,083	0	11,510,459
0	0	0	0	10,945,964	10,945,964
<u>\$193,970</u>	<u>\$28,227</u>	<u>\$100,776</u>	<u>\$11,464,083</u>	<u>\$10,945,964</u>	<u>\$46,834,568</u>
\$4,787	\$0	\$718	\$0	\$0	\$312,547
44,728	0	0	0	108,924	1,747,277
14,774	0	0	0	735,881	913,481
158,480	0	0	0	0	163,540
2,927	0	0	0	0	5,421,261
0	0	82,128	0	0	82,128
0	113,271	0	0	0	113,271
0	0	0	0	10,101,159	10,101,159
0	0	0	0	0	3,650,000
<u>225,696</u>	<u>113,271</u>	<u>82,846</u>	<u>0</u>	<u>10,945,964</u>	<u>22,504,664</u>
0	0	0	11,464,083	0	11,464,083
8,911	0	0	0	0	8,911
(40,637)	(85,044)	0	0	0	(125,681)
0	0	0	0	0	1,199,172
0	0	0	0	0	403,397
0	0	0	0	0	75,952
0	0	0	0	0	217,825
0	0	17,930	0	0	11,086,245
<u>(31,726)</u>	<u>(85,044)</u>	<u>17,930</u>	<u>11,464,083</u>	<u>0</u>	<u>24,329,904</u>
<u>\$193,970</u>	<u>\$28,227</u>	<u>\$100,776</u>	<u>\$11,464,083</u>	<u>\$10,945,964</u>	<u>\$46,834,568</u>

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Hillsboro City School District
 Combined Statement of Revenues, Expenditures
 And Changes in Fund Balance
 All Governmental Fund Types and Expendable Trust Funds
 For the Year Ended June 30, 2002

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Taxes	\$6,749,427	\$11,499	\$562,583	\$0	\$0	\$7,423,509
Intergovernmental	10,145,022	1,229,533	129,490	50,797	0	11,554,842
Investment	146,126	0	0	375,644	251	522,021
Tuition & Fees	88,108	0	0	0	0	88,108
Extracurricular Activities	0	282,676	0	0	0	282,676
Miscellaneous	52,851	107,671	0	0	267	160,789
Total Revenues	17,181,534	1,731,379	692,073	426,441	518	20,031,945
Expenditures:						
Current:						
Instruction:						
Regular	7,681,839	421,940	0	55,175	0	8,158,954
Special	982,737	520,782	0	0	0	1,503,519
Vocational	550,863	0	0	0	0	550,863
Other	156,611	63,989	0	0	0	220,600
Support Services:						
Pupils	806,400	54,027	0	0	0	860,427
Instructional Staff	1,120,890	364,371	0	1,770	0	1,487,031
Board of Education	16,844	0	0	0	0	16,844
Administration	1,929,462	40,332	0	0	0	1,969,794
Fiscal	564,953	0	0	0	0	564,953
Business	0	0	0	0	414	414
Operation & Maintenance of Plant	1,278,612	53,346	0	0	0	1,331,958
Pupil Transportation	871,115	2,120	0	0	0	873,235
Central	2,763	31,468	0	18,904	0	53,135
Operation of Non-Instructional Services	137,640	59,939	0	0	4,500	202,079
Extracurricular Activities	221,456	168,728	0	0	0	390,184
Capital Outlay	164,790	0	0	712,706	0	877,496
Debt Service:						
Principal Retirement	0	0	10,036,923	0	0	10,036,923
Interest & Fiscal Charges	0	3,026	1,109,387	0	0	1,112,413
Total Expenditures	16,486,975	1,784,068	11,146,310	788,555	4,914	30,210,822
Excess of Revenues Over (Under) Expenditures	694,559	(52,689)	(10,454,237)	(362,114)	(4,396)	(10,178,877)
Other Financing Sources (Uses):						
Proceeds of Bonds	0	0	10,000,000	0	0	10,000,000
Proceeds from Sale of Fixed Assets	4,139	0	0	0	0	4,139
Demutualization of Anthem Healthcare	0	0	0	1,238,326	0	1,238,326
Operating Transfers In	0	0	60,699	13,957,216	0	14,017,915
Operating Transfers Out	(367,915)	0	(13,650,000)	0	0	(14,017,915)
Total Other Financing Sources (Uses)	(363,776)	0	(3,589,301)	15,195,542	0	11,242,465
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	330,783	(52,689)	(14,043,538)	14,833,428	(4,396)	1,063,588
Fund Balance, Beginning of Year	(176,945)	637,316	10,761,828	674,478	22,326	11,919,003
Fund Balance, End of Year	\$153,838	\$584,627	(\$3,281,710)	\$15,507,906	\$17,930	\$12,982,591

See accompanying notes.

Hillsboro City School District
 Combined Statement of Revenues, Expenditures
 And Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 All Governmental Fund Types
 For the Year Ended June 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$6,491,184	\$6,491,184	\$0	\$107,115	\$107,115	\$0
Intergovernmental	10,145,052	10,145,052	0	1,431,598	1,330,266	(101,332)
Investment	146,492	146,492	0	0	0	0
Tuition & Fees	84,638	84,638	0	0	0	0
Extracurricular Activities	0	0	0	287,985	285,216	(2,769)
Miscellaneous	64,220	62,539	(1,681)	123,893	107,913	(15,980)
Total Revenues	16,931,586	16,929,905	(1,681)	1,950,591	1,830,510	(120,081)
Expenditures:						
Current:						
Instruction:						
Regular	7,760,494	7,702,805	57,689	473,817	432,137	41,680
Special	981,237	980,136	1,101	687,923	532,031	155,892
Vocational	551,982	551,982	0	0	0	0
Other	156,979	156,979	0	75,000	73,951	1,049
Support Services:						
Pupils	849,584	849,584	0	61,286	54,463	6,823
Instructional Staff	1,120,984	1,120,984	0	495,623	424,350	71,273
Board of Education	16,791	16,791	0	0	0	0
Administration	2,027,110	1,991,396	35,714	41,784	41,583	201
Fiscal	391,536	391,536	0	4,491	4,491	0
Operation & Maintenance of Plant	1,464,971	1,457,016	7,955	79,164	64,783	14,381
Pupil Transportation	1,173,841	1,173,841	0	2,660	2,120	540
Central	6,292	2,763	3,529	38,583	31,932	6,651
Operation of Non-Instructional Services	138,817	138,817	0	97,463	63,212	34,251
Extracurricular Activities	222,269	221,456	813	193,854	185,999	7,855
Capital Outlay	158,552	158,552	0	9,000	9,000	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest & Fiscal Charges	0	0	0	51,035	3,026	48,009
Total Expenditures	17,021,439	16,914,638	106,801	2,311,683	1,923,078	388,605
Excess (Deficiency) of Revenues Over Under Expenditures	(89,853)	15,267	105,120	(361,092)	(92,568)	268,524
Other Financing Sources (Uses):						
Proceeds of Bonds	0	0	0	0	0	0
Proceeds of Notes	0	0	0	0	0	0
Proceeds from Sale of Fixed Assets	5,955	5,955	0	0	0	0
Demutualization of Anthem Healthcare	0	787,256	787,256	0	0	0
Operating Transfers In	0	0	0	6,399	6,399	0
Operating Transfers Out	(367,915)	(367,915)	0	(8,399)	(8,204)	195
Advances In	4,000	4,000	0	4,000	4,000	0
Advances Out	(4,000)	(4,000)	0	(4,000)	(4,000)	0
Total Other Financing Sources (Uses)	(361,960)	425,296	787,256	(2,000)	(1,805)	195
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Use	(451,813)	440,563	892,376	(363,092)	(94,373)	268,719
Fund Balance, Beginning of Year (Includes Prior Year Encumbrances Appropriated)	529,702	529,702	0	616,248	616,248	0
Fund Balance, End of Year	\$77,889	\$970,265	\$892,376	\$253,156	\$521,875	\$268,719

See accompanying notes.

Debt Service			Capital Projects			Totals (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$824,987	\$824,987	\$0	\$0	\$0	\$0	\$7,423,286	\$7,423,286	\$0
129,490	129,490	0	89,260	89,260	0	11,795,400	11,694,068	(101,332)
0	0	0	694,890	694,026	(864)	841,382	840,518	(864)
0	0	0	0	0	0	84,638	84,638	0
0	0	0	0	0	0	287,985	285,216	(2,769)
0	0	0	0	0	0	188,113	170,452	(17,661)
954,477	954,477	0	784,150	783,286	(864)	20,620,804	20,498,178	(122,626)
0	0	0	62,500	61,696	804	8,296,811	8,196,638	100,173
0	0	0	0	0	0	1,669,160	1,512,167	156,993
0	0	0	0	0	0	551,982	551,982	0
0	0	0	0	0	0	231,979	230,930	1,049
0	0	0	0	0	0	910,870	904,047	6,823
0	0	0	5,330	4,283	1,047	1,621,937	1,549,617	72,320
0	0	0	0	0	0	16,791	16,791	0
0	0	0	0	0	0	2,068,894	2,032,979	35,915
0	0	0	0	0	0	396,027	396,027	0
0	0	0	18,930	0	18,930	1,563,065	1,521,799	41,266
0	0	0	0	0	0	1,176,501	1,175,961	540
0	0	0	19,351	19,351	0	64,226	54,046	10,180
0	0	0	0	0	0	236,280	202,029	34,251
0	0	0	0	0	0	416,123	407,455	8,668
0	0	0	13,897,070	1,505,404	12,391,666	14,064,622	1,672,956	12,391,666
27,336,923	27,336,923	0	0	0	0	27,336,923	27,336,923	0
1,109,387	1,109,387	0	0	0	0	1,160,422	1,112,413	48,009
28,446,310	28,446,310	0	14,003,181	1,590,734	12,412,447	61,782,613	48,874,760	12,907,853
(27,491,833)	(27,491,833)	0	(13,219,031)	(807,448)	12,411,583	(41,161,809)	(28,376,582)	12,785,227
10,000,000	10,000,000	0	0	0	0	10,000,000	10,000,000	0
3,650,000	3,650,000	0	0	0	0	3,650,000	3,650,000	0
0	0	0	0	0	0	5,955	5,955	0
0	0	0	0	0	0	0	787,256	787,256
60,699	60,699	0	307,216	307,216	0	374,314	374,314	0
0	0	0	0	0	0	(376,314)	(376,119)	195
0	0	0	0	0	0	8,000	8,000	0
0	0	0	0	0	0	(8,000)	(8,000)	0
13,710,699	13,710,699	0	307,216	307,216	0	13,653,955	14,441,406	787,451
(13,781,134)	(13,781,134)	0	(12,911,815)	(500,232)	12,411,583	(27,507,854)	(13,935,176)	13,572,678
14,042,972	14,042,972	0	13,962,105	13,962,105	0	29,151,027	29,151,027	0
\$261,838	\$261,838	\$0	\$1,050,290	\$13,461,873	\$12,411,583	\$1,643,173	\$15,215,851	\$13,572,678

**Hillsboro City School District
 Combined Statement of Revenues, Expenses
 And Changes in Retained Earnings
 All Proprietary Fund Types
 For the Year Ended June 30, 2002**

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
Operating Revenues:			
Charges for Services	\$587,174	\$167,807	\$754,981
Tuition & Fees	15,387	0	15,387
Miscellaneous Revenue	0	0	0
Total Operating Revenues	602,561	167,807	770,368
Operating Expenses:			
Salaries	275,395	0	275,395
Fringe Benefits	152,970	0	152,970
Purchased Services	77,975	35,000	112,975
Materials & Supplies	410,892	0	410,892
Depreciation	3,271	0	3,271
Claims	0	220,355	220,355
Total Operating Expenses	920,503	255,355	1,175,858
Operating (Loss)	(317,942)	(87,548)	(405,490)
Non-Operating Revenues:			
Miscellaneous Revenue	0	0	0
Donated Commodities	52,425	0	52,425
Operating Grants - State & Local	17,720	0	17,720
Operating Grants - Federal	283,768	0	283,768
Total Non-Operating Revenues	353,913	0	353,913
Net Income (Loss)	35,971	(87,548)	(51,577)
Retained Earnings, Beginning of Year (Restated)	(76,608)	2,504	(74,104)
Retained Earnings, End of Year	(\$40,637)	(\$85,044)	(\$125,681)

See accompanying notes.

Hillsboro City School District
 Combined Statement of Cash Flows
 All Proprietary Fund Types
 For the Year Ended June 30, 2002

	Proprietary Fund Types		Totals (Memorandum only)
	Enterprise	Internal Service	
Cash Flows from Operating Activities:			
Cash Received from Tuition & Fees	\$15,387	\$0	\$15,387
Cash Received from Charges for Services	593,528	182,838	776,366
Cash Payments for Personal Services	(432,481)	(190,029)	(622,510)
Cash Payments for Contract Services	(77,771)	(35,000)	(112,771)
Cash Payments for Supplies & Materials	(354,669)	0	(354,669)
Cash Payments for Other Expenses	0	0	0
Net Cash (Used) by Operating Activities	(256,006)	(42,191)	(298,197)
Cash Flows from Non-Capital Financing Activities:			
Cash Received from Operating Grants	301,488	0	301,488
Net Cash Provided by Non-Capital Financing Activities	301,488	0	301,488
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(5,972)	0	(5,972)
Net Cash Used for Capital and Related Financing Activities	(5,972)	0	(5,972)
Net Increase (Decrease) in Cash and Cash Equivalents	39,510	(42,191)	(2,681)
Cash and Cash Equivalents at Beginning of Year	102,088	70,418	172,506
Cash and Cash Equivalents at End of Year	\$141,598	\$28,227	\$169,825
Reconciliation of Operating Income to Net Cash (Used) by Operating Activities:			
Operating (Loss)	(\$317,942)	(\$87,548)	(\$405,490)
Adjustments to Reconcile Operating (Loss) to Net Cash Used by Operating Activities:			
Depreciation	3,271	0	3,271
Donated Commodities Used	52,425	0	52,425
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivables	6,354	15,031	21,385
(Increase) Decrease in Materials & Supplies Inventory	2,112	0	2,112
Increase (Decrease) in Accounts Payable	3,168	30,326	33,494
Increase (Decrease) in Accrued Wages & Benefits	(2,935)	0	(2,935)
Increase (Decrease) in Compensated Absences Payable	(1,181)	0	(1,181)
Increase (Decrease) in Deferred Revenue	(1,278)	0	(1,278)
Net Cash (Used) by Operating Activities	(256,006)	(42,191)	(298,197)

See accompanying notes.

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**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

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

1. DESCRIPTION OF THE DISTRICT

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

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 118 non-certificated personnel and 194 certificated teaching and administrative personnel to provide services to students and other community members.

In terms of enrollment, the District's ADM is 2,911. It currently operates four elementary buildings housing grades K-6, and one Middle School/Senior High building housing grades 7-12. The Administrative Office is located at 338 West Main Street, Hillsboro, Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. The Reporting Entity

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the Hillsboro City School District, this includes general operations, food service, preschool and student related activities of the District. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the District) are financially accountable. The District would consider an organization to be a component unit if:

1. The District appointed a voting majority of the organization's governing body **AND** (a) was able to impose its will on that organization **OR** (b) there was a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. **OR**
2. The organization was fiscally dependent upon the District. **OR**

3. The nature of the relationship between the District and the organization was such that exclusion from the financial reporting entity would render the financial statements misleading.

The District included no component units in the accompanying financial statements.

B. Basis of Presentation - Fund Accounting

The accounts of the District are organized and operated on the basis of fund and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues, and expenditures or expenses, as appropriate. The following fund types and account groups are used by the District:

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 for those accounted for in the proprietary and fiduciary fund types) are accounted for through Governmental Funds. The following are the District's Governmental Funds.

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 Fund

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Fund

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; and for the payment of interest on general obligation notes payable, as required by Ohio Law.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Proprietary Funds

Proprietary Funds are used to account for the District's ongoing activities, which are similar to those most often found in the private sector. The following are the District's Proprietary Funds:

Enterprise Funds

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 cost (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 Fund

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

Fiduciary Funds

Fiduciary Funds are used to account for the 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 Expendable Trust and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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 Proprietary Funds and Trust Funds.

General Long-Term Obligations Account Group

This group of accounts is established to account for all long-term obligations of the District, except those accounted for in Proprietary Funds and Trust Funds.

C. Measurement Focus/Basis of Accounting

Measurement Focus: Governmental Fund Types and Expendable Trust Funds are accounted for on a spending, or "current financial resources," measurement focuses. Governmental Fund Types and expendable Trust Funds operating statements represent increases and decreases in net current assets. Their reported fund balances are considered a measure of available spendable resources.

The District considers unpaid contractually required pension contributions as a current liability (governmental fund liability) because the liability is expected to be liquidated with available expendable resources.

Proprietary Fund Types are accounted for on a cost of services, or "economic resources," measurement focus. Proprietary Fund Type income statements represent increases and decreases in net total assets.

Basis of Accounting: The modified accrual basis of accounting is followed for Governmental, Expendable Trust and Agency Funds. Under this basis of accounting revenues are recognized when they become both measurable and available to finance expenditures for the current period, which for the District is 60 days after the fiscal year end. In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: real property tax available for advance, investment earnings, tuition, grants, and student fees. Delinquent property taxes are recorded as receivables if received within the available period. Expenditures are recognized in the period in which the related fund liability is incurred, except interest on long-term debt which is recorded when due. Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements fund financial statements, receivables that will now be collected within the available period have also been reported as deferred revenue.

D. Budgetary Data

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when encumbered, or paid in cash (budget), as opposed to when susceptible to accrual (GAAP).

The actual results of operations, compared to the final appropriation, which includes amendments to the original appropriation, for each fund type by expenditure function and revenue by source are presented in the *Combined Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual (Non-GAAP Budgetary Basis)*. The reserve for encumbrances is carried forward as part of the budgetary authority for the next year and is included in the revised budget amounts shown in the budget to actual comparisons.

The District is required by the State Statute to adopt an annual appropriated budget for all governmental fund types. The specific timetable is as follows:

1. Prior to January 15 of the preceding fiscal year, the Treasurer submits 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 Highland County Budget Commission for tax rate determination.

3. Prior to March 15, the Board of Education accepts by formal resolution, the tax rates as determined by the Highland County Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the 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 appropriation measure. On or about July 1, the Certificate is amended to include any encumbered 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.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund 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 Highland County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation 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 statutory provisions. All funds completed the year within the amount of their legally authorized 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.
8. Unencumbered appropriations lapse at the 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.

E. Encumbrances

Encumbrance accounting is utilized by 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 fiscal year-end appear as a reserve of the fund balance on a GAAP Basis and for all funds as the equivalent of expenditures/expenses on a non-GAAP budgetary basis in order to demonstrate legal compliance.

F. Cash and Investments

Cash received by the District is deposited in various bank accounts with individual fund balance integrity maintained throughout. Monies for all funds are maintained in these accounts or are temporarily used to purchase investments. Under existing Ohio statutes, all investments earnings accrue to the General Fund except those specifically related to Agency Funds, certain trust funds, and those funds individually authorized by Board resolution.

For purposes of the Statement of Cash Flows, the Enterprise Funds portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from these funds without prior notice or penalty.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. Senate Bill 345 eliminated the Budget Stabilization Reserve. The current year set-aside requirement for the Reserve is from a Bureau of Workers' Compensation refund received prior to April 10, 2001.

H. Inventory (Materials and Supplies)

Inventories of the Enterprise Funds are valued at lower of cost (first-in, first-out method) or market and are determined by the physical count.

I. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District does not possess any infrastructure.

Proprietary Funds

Property, plant and equipment reflected in the Proprietary 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:

Building Improvements	20-40 years
Equipment	3-15 years

J. Compensated Absences

GASB Statement No. 16 specifies that compensated absences should be accrued as they are earned by employees if both of the following conditions are met:

1. The employee's rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employee for the benefits through paid time off or cash payment.

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

	<u>Certificated</u>	<u>Administrators</u>	<u>Non-Certificated</u>
<u>Vacation:</u>			
How earned	Not Eligible	Per Board Policy	10-20 Days
Termination Entitlement	N/A	Per Board Policy	Per Board Policy
<u>Sick Leave:</u>			
How earned	1-1/4 days per mo. of employment (15 days per year)	1-1/4 days per mo. of employment (15 days per year)	1-1/4 days per mo. of employment (15 days per year)
Maximum Accumulation	245	245	245
Vested	As earned	As earned	As earned
Termination Entitlement	Per Contract	Per Board Policy	Per Board Policy

For Governmental Funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the respective Governmental Fund. Amounts that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Obligations Account Group. Compensated absences of Proprietary Funds are recorded as an expense and liability of the respective proprietary fund.

K. Interfund Transactions

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

1. Routine transfers of resources from one fund to another fund through which resources to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another fund are treated as expenditures/expenses in the reimbursing fund and as a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans are reflected as an interfund payable/receivable, while long-term interfund loans (greater than one year in length) are recorded as advances to/from other funds.

L. Long-Term Obligations

Long-term debt is recognized as a liability of a Governmental Fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available resources is reported as a fund liability of a Governmental Fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group. Long-term liabilities expected to be financed from Proprietary Fund operations are accounted for in those funds.

M. Estimates

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

N. Fund Equity

The District records reservations for portions of fund equity, which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes and budgetary set-asides required under Ohio law.

O. Memorandum Only - Total Columns

Total columns on the general-purpose financial statements 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 generally accepted accounting principals. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

P. Proprietary Fund Accounting

In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", the District applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principals Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

Q. Contributed Capital

Contributed capital represents resources from other funds, other governments and private sources provided to the proprietary funds prior to July 1, 2000 that are not subject to repayment. 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.

Because the School District did not prepare financial statements in accordance with generally accepted accounting principles prior to fiscal year 1993, the exact amount of contributed capital could not 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.

3. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

Inactive Monies - Those monies not required for use within the current two-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Interim Monies - These are monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

State legislation now permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the united States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Under limited circumstances, corporate debt interests 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 School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

District deposits at fiscal year end consisted of certificates of deposit, and checking accounts. At year-end the carrying amount of the District's deposits was \$1,982,532. The bank balance of deposits was \$2,736,767. Of that balance, \$272,309 was covered by federal depository insurance. The remaining bank balance was covered by collateral held by third-party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions. The remaining cash balance is defined by GASB statement No. 3 as uncollateralized, because the collateral held by the trustees is not in the District's name.

Investments

The District's 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 issued, registered, or held by the District or its agent in the District's name.

CATEGORY 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the District's name.

CATEGORY 3 includes uninsured and unregistered investments held by the counterparty, or by its department or agent, but not in the District's name.

Based on the above criteria, the District's investments at year-end are classified as follows:

<u>INVESTMENTS</u>	<u>RISK CATEGORY</u>	<u>CARRYING VALUE/ FAIR VALUE</u>
Money Market – US Treasury Equivalent	*	\$ 611
STAROhio	*	228,671
Federal Home Loan Bank Bonds	3	7,749,895
Federal Home Loan Mortgage Corp.	3	737,940
Federal National Mortgage Association	3	4,501,808
Commercial Paper	3	990,100
Anthem Stock	1	<u>1,238,326</u>
		<u>\$15,447,351</u>

(*) Unclassified Investments because they are not evidenced by securities that exist in physical or book entry form.

4. PROPERTY TAXES

Property taxes include amounts levied against real, public utility and tangible personal (business) property. The assessed values, by property classification, upon which taxes collected in 2002 were based, are as follows:

Real Property - Commercial/Industrial	\$ 42,805,750
Real Property - Residential/Agricultural	155,208,620
Real Property - Public Utilities	9,824,260
Personal Property – General	32,150,860
Personal Property – Public Utilities	<u>23,200</u>
Total	<u>\$240,012,690</u>

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes, attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment was due by March 11. If paid semi-annually, the first payment (at least 1/2 of amount billed) was due March 11, with the remainder due on August 12.

The Highland County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of Real and Public Utility property taxes in February and August and Tangible Personal Property taxes in June and October.

5. FIXED ASSETS

A summary of the General Fixed Assets Account Group at year-end follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Land & Land Improvements	\$1,196,285	\$ 0	\$ 0	\$1,196,285
Building and Building Improvements	4,982,722	30,250	0	5,012,972
Equipment	<u>5,108,011</u>	<u>173,130</u>	<u>26,315</u>	<u>5,254,826</u>
Total	<u>\$11,287,018</u>	<u>\$ 203,380</u>	<u>\$ 26,315</u>	<u>\$11,464,083</u>

A summary of the Proprietary Fund fixed assets at year-end follows:

Equipment	\$150,766
Less Accumulated Depreciation	<u>(104,390)</u>
Net Fixed Assets	<u>\$ 46,376</u>

6. LONG-TERM DEBT

Changes in Long-Term Obligations:

During the current fiscal year, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and accrued wages and benefits will be paid from the fund from which the employee is paid.

	Balance Beginning of Year Restated	Increase	(Decrease)	Balance End of Year
Accrued Wages & Benefits	\$129,018	\$ 0	(\$20,094)	\$108,924
Compensated Absences	682,981	52,900	0	735,881
Bond Anticipation Note	10,000,000	0	(10,000,000)	0
General Obligation Bonds	<u>138,082</u>	<u>10,000,000</u>	<u>(36,923)</u>	<u>10,101,159</u>
Totals	<u>\$10,950,081</u>	<u>\$10,052,900</u>	<u>(\$10,057,017)</u>	<u>\$10,945,964</u>

The accrued wages and benefits amounts above represent pension contributions that are not expected to be liquidated with expendable available financial resources.

General Obligation Bonds:

The following is a description of the District's General Obligation Bonds as of the year-end:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 6/30/01</u>	<u>Issued 2002</u>	<u>Retired 2002</u>	<u>Balance 6/30/02</u>
Energy							
Conservation	5.2	9/21/99	9/21/04	\$138,082	\$ 0	\$36,923	\$101,159
School							
Improvement	3.25	11/15/01	12/01/28	<u>0</u>	<u>10,000,000</u>	<u>0</u>	<u>10,000,000</u>
Total				<u>\$138,082</u>	<u>\$10,000,000</u>	<u>\$36,923</u>	<u>\$10,101,159</u>

The following is a summary of the District's future annual debt service requirements to maturity:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2003	\$188,895	\$462,224	\$651,119
2004	260,966	454,162	715,128
2005	246,297	444,772	691,069
2006	230,000	436,825	666,825
2007	240,000	429,248	669,248
Thereafter	<u>8,935,001</u>	<u>5,646,644</u>	<u>14,581,645</u>
Total	<u>\$10,101,159</u>	<u>\$7,873,875</u>	<u>\$17,975,034</u>

Short-Term Debt:

During fiscal year 2002, the School District issued one-year \$3,650,000 bond anticipation notes for the purpose of construction and renovation of buildings. This note will be repaid with tax revenue. This note is backed by the full faith and credit of the School District. The note liability is reflected in the fund which received the proceeds.

	<u>Balance</u> <u>6/30/2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2002</u>
Permanent Improvement				
Debt Service Fund:				
4.20% Bond Anticipation Note	\$3,650,000	\$ 0	\$3,650,000	\$ 0
2.42% Bond Anticipation Note	0	3,650,000	0	3,650,000
Capital Projects Fund:				
3.98% Bond Anticipation Note	10,000,000	0	10,000,000	0
3.51% Bond Anticipation Note	<u>3,650,000</u>	<u>0</u>	<u>3,650,000</u>	<u>0</u>
Totals	<u>\$17,300,000</u>	<u>\$3,650,000</u>	<u>\$17,300,000</u>	<u>\$3,650,000</u>

7. INTERFUND ACTIVITY

As of June 30, 2002, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$155,954	\$ 0
Capital Projects Fund	7,586	2,060
Special Revenue Fund	0	3,000
Enterprise Funds	<u>0</u>	<u>158,480</u>
Total All Funds	<u>\$163,540</u>	<u>\$163,540</u>

8. SEGMENT INFORMATION

Enterprise Funds

The District maintains two Enterprise Funds to account for the operations of Food Services and Uniform School Supply. 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 current year-end.

	<u>Food Services</u>	<u>Uniform School Supply</u>	<u>Total</u>
Operating Revenues	\$587,138	\$15,423	\$602,561
Operating Expenses Before Depreciation	902,912	14,320	917,232
Depreciation	3,271	0	3,271
Operating Income (Loss)	(319,045)	1,103	(317,942)
Operating Grants	301,488	0	301,488
Donated Commodities	52,425	0	52,425
Net Income (Loss)	34,868	1,103	35,971
Capital Contributions	0	0	0
Property, Plant & Equipment Additions	5,972	0	5,972
Property, Plant & Equipment Deletions (net of accum. deprec.)	0	0	0
Net Working Capital	(82,750)	4,648	(78,102)
Total Assets	189,322	4,648	193,970
Total Liabilities	225,696	0	225,696
Total Equity	(36,374)	4,648	(31,726)

9. RISK MANAGEMENT

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

General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$5,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 for automobile liability. The District also has umbrella liability coverage with a limit of \$5,000,000.

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$22,543,645. Other property insurance includes band instruments, tools, and physical damage to the blanket limit. The District pays all appointed officials' bonds by statute.

During the current fiscal year, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), a group purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Dental insurance is offered to employees through a self-insurance internal service fund. The claims liability of \$60,316 reported in the internal service fund at fiscal year end is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the fiscal year follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
FY 2002	\$82,845	\$60,316	\$82,845	\$60,316
FY 2001	69,711	202,435	189,301	82,845

10. EMPLOYEE RETIREMENT SYSTEM

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The Hillsboro City School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9% of their annual covered salary and the Hillsboro City School District is required to contribute 14%. The contribution rates are not determined actuarially, but are established by SERS' Retirement board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's contributions to SERS for the years ending June 30, 2002, 2001 and 2000 were \$395,088, \$388,134, and \$341,454, respectively. 54% has been contributed for fiscal year 2002 and 100% for fiscal year 2001 and 2000. \$182,952 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.

STATE TEACHERS RETIREMENT SYSTEM

The Hillsboro City School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the Hillsboro City School District is required to contribute 14%. 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not exceed statutory maximum rates of 10% for members and 14% for employers. The District's contributions to STRS for the years ending June 30, 2002, 2001 and 2000 were \$1,167,708, \$1,093,332, and \$1,029,468, respectively, equal to the required contributions for each year. 93% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000. \$201,668 represents the unpaid contribution for fiscal year 2002, and is recorded as a liability within the respective funds.

POST-EMPLOYMENT BENEFITS

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

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. The Board allocated employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund. For the year ended June 30, 2002, the allocation will be 4.5% of the covered payroll.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

For fiscal year 2002, employer contributions to fund health care benefits were 8.54% of covered payroll, an increase from 8.45% for fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of the annual health care expenses. Expenses for health care at June 30, 2001, were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principals (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. A reconciliation of the nature and amounts of the adjustments necessary to convert the GAAP financial statements to the budgetary basis follows:

Reconciliation of Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
From GAAP Basis to Budgetary Basis

<u>Governmental Fund Types</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
GAAP Basis	\$330,783	(\$52,689)	(\$14,043,538)	\$14,833,428
Net Adjustment for Revenue Accruals	541,443	109,530	3,912,404	(14,531,481)
Net Adjustment for Expenditure Accruals	11,103	16,355	(3,650,000)	80,094
Net Adjustment for Encumbrances	<u>(442,766)</u>	<u>(167,569)</u>	<u>0</u>	<u>(882,273)</u>
Budgetary Basis	<u>\$440,563</u>	<u>(\$94,373)</u>	<u>(\$13,781,134)</u>	<u>(\$500,232)</u>

12. ACCOUNTABILITY

Fund Deficits and Deficits in Retained Earnings

Fund Balances/Retained Earnings at fiscal year end, included the following funds:

<u>Fund</u>	<u>Deficit</u>
Debt Service	\$3,281,710
Enterprise	40,637
Internal Service	85,044

The Debt Service fund deficit has resulted since short-term debt is reported within the associated fund rather than in the general long-term debt account group. The deficit is expected to be eliminated through future debt issues and/or transfers from the general fund.

The Enterprise and Internal Service deficits occurred as a result of certain expenditures being incurred in anticipation of the receipts of revenues early in the next fiscal year. These deficits are expected to be provided for through future revenues.

13. CONTINGENT LIABILITIES

Grants

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

14. JOINTLY GOVERNED ORGANIZATIONS

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

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

15. SCHOOL FUNDING DECISION/SUBSEQUENT EVENT

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 decision 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 on its financial operations.

16. STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2002, the reserve activity (cash basis) was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>
Set-aside Reserve Balance as of June 30, 2001	\$ 0	\$ 0	\$75,952
Current Year Set-aside Requirement	340,035	340,035	0
Current Year Offsets	0	0	0
Carry Forward Qualifying Disbursements	(178,916)	0	0
Qualifying Disbursements	<u>(468,073)</u>	<u>(340,035)</u>	<u>0</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$306,954)</u>	<u>\$ 0</u>	<u>\$ 75,952</u>
Set-aside Reserve Balance As of June 30, 2002	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 75,952</u>

Qualifying expenditures for textbook activity during the year were \$468,073, which exceeded the required set-aside reserve. Although the School District had qualifying disbursements during the fiscal year that reduced the capital maintenance set-aside amount below zero, only the amount for the textbook set-aside may be used to reduce the set-aside requirement of future years.

17. DEMUTUALIZATION OF ANTHEM HEALTHCARE

On November 2, 2001, Anthem Insurance Companies, Inc. converted from a mutual insurance company to a stock insurance company in a process called demutualization. On the date of demutualization, all membership interests in Anthem Insurance were extinguished and the eligible members of Anthem Insurance were entitled to receive consideration in the form of Anthem, Inc.’s common stock. As a result of demutualization, the District received 18,351 shares of Anthem, Inc. common stock (ATH). At June 30, 2002, the market value of Anthem, Inc. common stock was \$67.48 per share. The total value of the District’s stock at June 30, 2003 was \$1,238,326.

18. PRIOR PERIOD ADJUSTMENTS

- A. The beginning fixed asset balance of the General Fixed Asset Account Group and the beginning retained earnings balance of the Enterprise Fund have been adjusted for a change in capitalization threshold from \$300 to \$2,000 as follows:

	<u>Enterprise Fund</u>	<u>General Fixed Assets Account Group</u>
Balance previously stated, June 30, 2001	(\$41,356)	\$12,937,701
Prior Period Adjustment	<u>(35,252)</u>	<u>(1,650,683)</u>
As Restated, July 1, 2001	<u>(\$76,608)</u>	<u>\$11,287,018</u>

- B. During Fiscal Year 2002, it was determined that there had been an error in the District’s accrual of income tax revenue in their general fund during the previous fiscal year. This resulted in a restatement of the general fund opening fund balance as of July 1, 2001 as follows:

General Fund Balance, previously stated, June 30, 2001	\$1,963,229
Correction for income tax revenue accrued	<u>(2,140,174)</u>
As Restated, July 1, 2001	<u>(\$176,945)</u>

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HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY, OHIO
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
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$51,147	\$0	\$52,425
National School Lunch Program	LLP4-2001	10.555	233,267	0	233,267	0
Special Milk Program for Children	LLP4-2002 02-PU-2001	10.556	5,221	0	5,221	0
National School Breakfast Program	02-PU-2002 05-PU-2001 05-PU-2002	10.553	45,279	0	45,279	0
Total U.S. Department of Agriculture - Nutrition Cluster			283,767	51,147	283,767	52,425
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SF-2000 6B-SF-2001	84.027	158,424	0	156,886	0
Handicapped Preschool	PG-S1-2001	84.173	5,395	0	5,395	0
Total Special Education Cluster			163,819	0	162,281	0
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2001 C1-S1-2002 C1-SD-2001 C1-SD-2002	84.010	566,040	0	516,289	0
Innovative Educational Program Strategies	C2-S1-2002 C2-S1-2001	84.298	15,845	0	15,845	0
Eishenhower Professional Development Grant	MS-S1-2002	84.281	16,728	0	18,974	0
Class Size Reduction (Title VI R)	CR-S1-2001 CR-S1-2002	84.340	108,594	0	108,325	0
School Renovation, IDEA and Technology	AT-S1-2002	84.352A	7,894	0	7,793	0
Goals 2000 - State and Local Education Systemic Improvement	G2-S9-2001	84.276	15,000	0	23,671	0
Comprehensive School Reform Demonstration	RF-S1-2001	84.332	75,000	0	57,779	0
Drug-Free Schools Grant	DR-S1-2002	84.186	2,464	0	879	0
Total Department of Education			971,384	0	911,836	0
<u>U.S. DEPARTMENT OF LABOR</u>						
<i>Passed Through Region 7 School-to-Work Jackson City School District - Fiscal Agent</i>						
Employment Services and Job Training - Pilot Program	N/A	17.249	0	0	163	0
Total Department of Labor			0	0	163	0
<u>U.S. DEPARTMENT OF MENTAL RETARDATION and DEVELOPMENTAL DISABILITIES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Community Alternative Fund System (CAFS)	N/A	93.778	16,629	0	16,629	0
Total Department of Mental Retardation and Developmental Disabilities			16,629	0	16,629	0
Totals			\$1,271,780	\$51,147	\$1,212,395	\$52,425

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

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

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

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market 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.

NOTE C--COMMUNITY ALTERNATIVE FUNDING SYSTEM

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



Auditor of State Betty Montgomery

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

Hillsboro City School District
Highland County
338 West Main Street
Hillsboro, Ohio 45133

To the Board of Education:

We have audited the financial statements of Hillsboro City School District, Highland County, Ohio (the District), as of and for the year ended June 30, 2002, and have issued our report thereon dated March 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 Hillsboro 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 no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 13, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillsboro 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hillsboro City School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10436-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 13, 2003.

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Hillsboro City School District
Highland County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management, board of education, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 13, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Hillsboro City School District
Highland County
338 West Main Street
Hillsboro, Ohio 45133

To the Board of Education:

Compliance

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

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

Internal Control Over Compliance

The management of Hillsboro 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 the 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 our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 management, board of education, 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.



Betty Montgomery
Auditor of State

March 13, 2003

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<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)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<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):	Nutrition Cluster: Food Distribution Program, CFDA #10.550; National School Lunch Program, CFDA #10.555; Special Milk Program for Children, CFDA #10.556; and National School Breakfast Program, CFDA # 10.553
<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

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

FINDING NUMBER 2002-10436-001

Reportable Condition

We noted the following internal control weaknesses during our review of the food service program:

- Lunch counts for each different type of lunch served were not segregated on the cash register because their cash register does not have enough keys available.
- Prepaid lunch tickets sold are not reconciled with the money collected. We found no documentation that the cash collections in the drawer were matched with the cash register tape total or that charged and prepaid cards were matched with the counts recorded.
- Office personnel at each building do not perform any procedures to check that the money collected is correct.

**FINDING NUMBER 2002-10436-001
(Continued)**

- Some items were combined on the Daily Sales Report, for example full price charges were combined with Prepaid Full Price and reported as the prepaid full price count.
- Checks were not listed on the Daily Sales Form.

Without proper record keeping and monitoring by district personnel, errors could go undetected and money due from students could go uncollected. Proper record keeping would also facilitate the reconciliation process. Alternative audit procedures were performed for the lunchroom receipts. To improve the internal control over food service, we recommend the following:

- A count of each type of lunch served for the day should be maintained. The District should develop a new system to record lunches served that do not have individual keys on the cash register.
- A person at each building should reconcile the money collected with the prepaid lunch tickets sold each day. The reconciliation of cash should be shown on the tape, along with the amount of shortage or overage. The cashier should indicate on the cash register that she has agreed charges and prepaid lunch counts with cards collected for the day.
- We recommend that the person who completes the Daily Sales Report agree the collections with the cash register tape, and agree the prepaid full price cards, prepaid reduced cards, full price charge cards and reduced charge cards with the counts recorded by the cashier. This person should initial the cashier's counts to indicate she had checked them.
- The count and collections for each type of lunch should be reported separately on the Daily Sales Report and supporting documentation for each item attached. Documentation would include the cash register tape, manual counter mark forms, charge card slips, and prepayment lists.
- The checks should be listed by person's name on the daily bank deposit slip so they can be matched back to payments if necessary.
- Someone should periodically check the counts being reported back to the cash register tape or manual count form and with the free and reduced approved applications on file to assure errors are found and corrected in a timely manner.

This condition was also reported in our audit of the fiscal year 2001 financial statements.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**HILLSBORO CITY SCHOOL DISTRICT
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10436-001	Annual Appropriation measure passed late. No approval of appropriation amendments throughout the year.	Yes	
2001-10436-002	No investment policy on file with Auditor of State.	Yes	
2001-10436-003	Board did not vote to authorize investments in commercial paper.	Yes	



**Auditor of State
Betty Montgomery**

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HILLSBORO CITY SCHOOL DISTRICT

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 1, 2003**