



**Auditor of State
Betty Montgomery**

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Rolling Hills Local School District
Guernsey County
P.O. Box 38
Byesville, Ohio 43723

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Rolling Hills Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Rolling Hills Local School District, Guernsey County, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2004, on our consideration of the School 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is 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 basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic 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 24, 2004

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of the Rolling Hills Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2003 are as follows:

- Net assets of governmental activities increased \$104,683.
- General revenues accounted for \$13,781,870 in revenue or 82 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,943,915, 18 percent of total revenues of \$16,725,785.
- Total assets of governmental activities decreased \$130,997 primarily due to decreases in cash and cash equivalents.
- The School District had \$16,621,102 in expenses related to governmental activities; only \$2,943,915 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$13,781,870 provided for the remainder of these activities.
- The School District has two major funds; the General Fund and the Debt Service Fund. The General Fund had \$13,820,330 in revenues and \$13,998,617 in expenditures. The General Fund's balance decreased \$484,451. The Debt Service had \$613,666 in revenues and \$645,431 in expenditures. The Debt Service Fund's balance increased \$18,235.

Using this Annual Financial Report

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

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

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, debt service, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Debt Service Fund.

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

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets for 2003 compared to 2002.

Table I
Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Assets		
Current and Other Assets	\$9,712,758	\$10,322,258
Capital Assets	<u>13,858,913</u>	<u>13,380,410</u>
Total Assets	<u>23,571,671</u>	<u>23,702,668</u>
Liabilities		
Long-Term Liabilities	(2,995,855)	(3,299,828)
Other Liabilities	<u>(6,539,936)</u>	<u>(6,471,643)</u>
Total Liabilities	<u>(9,535,791)</u>	<u>(9,771,471)</u>
Net Assets		
Invested in Capital Assets, Net of Debt	11,708,913	10,805,410
Restricted	1,709,804	1,896,718
Unrestricted	<u>617,163</u>	<u>1,229,069</u>
Total Net Assets	<u><u>\$14,035,880</u></u>	<u><u>\$13,931,197</u></u>

Total assets decreased \$130,997. Although cash and cash equivalents decreased by \$1,032,604 from fiscal year 2002, other assets such as capital assets and intergovernmental receivables increased by \$478,503 and \$270,732 from the previous year.

Total liabilities decreased \$235,680. The decrease in the School Facilities Improvement Bonds and the Energy Conservation Loan Payable in the amounts of \$325,000 and \$100,000, respectively, accounted for most of this decrease. There were also slight decreases in accounts payable and contracts payable, as well as increases in compensated absences and accrued wages.

Total Net Assets remained consistent by only increasing in the amount of \$104,683 for the reasons stated above. Specifically, unrestricted net assets decreased by \$611,906 primarily as a result of a decline in the General Fund's cash balance.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2
Changes in Net Assets

Revenues	<u>Governmental Activities</u>
	<u>2003</u>
Program Revenues	
Charges for Services	\$668,319
Operating Grants and Contributions	2,220,286
Capital Grants and Contributions	55,310
Total Program Revenues	<u>2,943,915</u>
General Revenue	
Property Taxes	5,454,338
Grants and Entitlements	8,185,968
Investment Earnings	113,442
Miscellaneous	28,122
Total General Revenues	<u>13,781,870</u>
Total Revenues	<u>16,725,785</u>
Program Expenses	
Instruction	
Regular	7,352,381
Special	1,084,239
Vocational	375,335
Adult/Continuing	3,522
Support Services	
Pupils	738,979
Instructional Staff	1,406,597
Board of Education	32,749
Administration	1,231,293
Fiscal	434,844
Operation and Maintenance of Plant	1,570,458
Pupil Transportation	880,487
Central	90,909
Operation of Non-Instructional Services	
Food Service Operations	876,079
Other	15,432
Extracurricular Activities	325,074
Interest	202,724
Total Expenses	<u>16,621,102</u>
Increase in Net Assets	<u><u>\$104,683</u></u>

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up 33 percent of revenues for governmental activities for Rolling Hills Local School District in fiscal year 2003.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Despite the School District receiving revenues from GAP Aid, the passage of House Bill 95 has had a detrimental affect on the School District. While the District operates a very tight budget, revenue sources are not projected to keep pace with expenditures. In addition, the passage of any future levies would cause the District to lose State funding through GAP Aid. Enrollment also is a factor in the finances of the District. The District lost approximately \$252,000 in outgoing open enrollment in fiscal year 2003.

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons between fiscal year 2002 and 2003 are not possible due to the unavailability of fiscal year 2002 information.

Table 3
Governmental Activities

	2003 <u>Total Cost of Services</u>	2003 <u>Net Cost of Services</u>
Program Expenses		
Instruction:		
Regular	\$7,352,381	\$6,993,814
Special	1,084,239	165,683
Vocational	375,335	299,957
Adult/Continuing	3,522	3,522
Support Services:		
Pupils	738,979	590,266
Instructional Staff	1,406,597	973,752
Board of Education	32,749	32,749
Administration	1,231,293	1,222,289
Fiscal	434,844	434,844
Operation and Maintenance of Plant	1,570,458	1,519,297
Pupil Transportation	880,487	831,190
Central	90,909	76,395
Operation of Non-Instructional Services		
Food Service Operations	876,079	88,059
Other	15,432	133
Extracurricular Activities	325,074	242,513
Interest	<u>202,724</u>	<u>202,724</u>
Totals	<u><u>\$16,621,102</u></u>	<u><u>\$13,677,187</u></u>

Instructional programs comprise approximately 53 percent of total governmental program expenses. Of the instructional expenses, approximately 83 percent is for regular instruction, 12 percent for special instruction, and 5 percent for vocational and adult/continuing instruction.

The dependence upon tax revenues and state subsidies for governmental activities is apparent, with 82 percent of the School District's activities being supported through taxes and other general revenues.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,585,237 and expenditures of \$17,391,613.

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the School District amended its General Fund appropriations although none were significant.

Budget basis revenue was \$13,634,880 compared to final estimates of \$13,734,807. Of this \$99,927 difference, most was due to conservative property tax estimates.

The School District's ending unobligated General Fund balance was \$881,519.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$13,858,913 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002.

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

	<u>Government Activities</u>	
	<u>2003</u>	<u>2002</u>
Land	\$218,502	\$218,502
Land Improvements	195,170	208,325
Buildings and Improvements	12,204,927	11,834,814
Furniture and Equipment	381,630	332,969
Vehicles	858,684	785,800
Totals	<u>\$13,858,913</u>	<u>\$13,380,410</u>

During fiscal year 2003, the School District purchased buildings, furniture and equipment, and vehicles. See Note 9 for additional information regarding capital assets.

Rolling Hills Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Debt

At June 30, 2003, the School District had \$1,950,000 in 1985 general obligation bonds outstanding, \$325,000 due within one year. The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2009. In addition the School District had \$200,000 outstanding in Energy Conservation Loans Payable. See Note 15 for more detailed information of the School District's debt.

Set-asides

For fiscal year 2003, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2003, this amounted to \$276,671 for each set aside. For fiscal year 2003, the School District had qualifying disbursements or offsets exceeding the \$276,671 requirement for capital maintenance. However a portion of the requirement for textbooks and instructional materials had to be set-aside and carried forward to future years. See Note 19 for more detailed information of the School District's set-asides.

Economic Factors

The School District did not end fiscal year 2003 with a positive cash flow. This is the fourth straight year that the School District has experienced a negative cash flow. The board of education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to maintain the financial stability of the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Jeffrey Walters, Treasurer/CFO at Rolling Hills Local School District, P.O. Box 38, Byesville, Ohio 43723.

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Rolling Hills Local School District, Ohio

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,130,286
Accounts Receivable	7,218
Intergovernmental Receivable	361,890
Prepaid Items	185,262
Inventory Held for Resale	13,320
Materials and Supplies Inventory	111,325
Property and Other Local Taxes Receivable	5,898,704
Accrued Interest Receivable	4,753
Nondepreciable Capital Assets	218,502
Depreciable Capital Assets, Net	<u>13,640,411</u>
<i>Total Assets</i>	<u>23,571,671</u>
Liabilities	
Accounts Payable	81,275
Accrued Wages and Benefits	1,727,367
Matured Compensated Absences	44,455
Special Termination Benefits Payable	30,000
Accrued Interest Payable	14,810
Deferred Revenue	4,013,648
Intergovernmental Payable	394,881
Claims Payable	233,500
Long-Term Liabilities:	
Due Within One Year	469,264
Due In More Than One Year	<u>2,526,591</u>
<i>Total Liabilities</i>	<u>9,535,791</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,708,913
Restricted for:	
Capital Projects	88,861
Debt Service	924,341
Other Purposes	696,602
Unrestricted	<u>617,163</u>
<i>Total Net Assets</i>	<u><u>\$14,035,880</u></u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues		Net Expense and Change in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities				Governmental Activities	
Instruction:					
Regular	\$7,352,381	\$30,925	\$327,642	\$0	(\$6,993,814)
Special	1,084,239	0	918,556	0	(165,683)
Vocational	375,335	0	75,378	0	(299,957)
Adult/Continuing	3,522	0	0	0	(3,522)
Support Services:					
Pupils	738,979	118,496	25,239	4,978	(590,266)
Instructional Staff	1,406,597	0	425,539	7,306	(973,752)
Board of Education	32,749	0	0	0	(32,749)
Administration	1,231,293	0	9,004	0	(1,222,289)
Fiscal	434,844	0	0	0	(434,844)
Operation and Maintenance of Plant	1,570,458	45,945	0	5,216	(1,519,297)
Pupil Transportation	880,487	10,138	1,349	37,810	(831,190)
Central	90,909	0	14,514	0	(76,395)
Operation of Non-Instructional Services:					
Food Service Operations	876,079	380,254	407,766	0	(88,059)
Other	15,432	0	15,299	0	(133)
Extracurricular Activities	325,074	82,561	0	0	(242,513)
Interest	202,724	0	0	0	(202,724)
Totals	\$16,621,102	\$668,319	\$2,220,286	\$55,310	(13,677,187)

General Revenues

Property Taxes Levied for:

General Purposes	4,815,887
Other Purposes	86,296
Debt Service	552,155
Grants and Entitlements not Restricted to Specific Programs	8,185,968
Investment Earnings	113,442
Miscellaneous	28,122

Total General Revenues 13,781,870

Change in Net Assets 104,683

Net Assets Beginning of Year - Note 3 13,931,197

Net Assets End of Year \$14,035,880

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2003*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$996,683	\$753,060	\$521,444	\$2,271,187
Accounts Receivable	5,718	0	1,500	7,218
Accrued Interest Receivable	4,753	0	0	4,753
Interfund Receivable	2,173	0	0	2,173
Intergovernmental Receivable	32,478	0	329,412	361,890
Prepaid Items	159,661	0	25,601	185,262
Inventory Held for Resale	0	0	13,320	13,320
Materials and Supplies Inventory	109,422	0	1,903	111,325
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	162,125	0	0	162,125
Property and Other Local Taxes Receivable	5,203,442	596,359	98,903	5,898,704
Total Assets	<u>\$6,676,455</u>	<u>\$1,349,419</u>	<u>\$992,083</u>	<u>\$9,017,957</u>
Liabilities				
Accounts Payable	\$55,545	\$0	\$25,730	\$81,275
Accrued Wages and Benefits	1,505,282	0	222,085	1,727,367
Matured Compensated Absences	44,455	0	0	44,455
Interfund Payable	0	0	2,173	2,173
Deferred Revenue	4,058,599	468,705	270,948	4,798,252
Intergovernmental Payable	235,131	0	31,030	266,161
Total Liabilities	<u>5,899,012</u>	<u>468,705</u>	<u>551,966</u>	<u>6,919,683</u>
Fund Balances				
Reserved for Encumbrances	132,105	0	164,238	296,343
Reserved for Budget Stabilization	67,981	0	0	67,981
Reserved for Textbooks and Instructional Materials	94,144	0	0	94,144
Reserved for Property Taxes	1,144,843	127,654	20,631	1,293,128
Unreserved:				
Undesignated, Reported in:				
General Fund	(661,630)	0	0	(661,630)
Special Revenue Funds	0	0	243,746	243,746
Debt Service Fund	0	753,060	0	753,060
Capital Projects Funds	0	0	11,502	11,502
Total Fund Balances	<u>777,443</u>	<u>880,714</u>	<u>440,117</u>	<u>2,098,274</u>
Total Liabilities and Fund Balances	<u>\$6,676,455</u>	<u>\$1,349,419</u>	<u>\$992,083</u>	
Amounts reported for governmental activities in the statement of net assets are different because of the following:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				13,858,913
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:				
Property Taxes Receivable	591,928			
Intergovernmental Receivable	192,676			784,604
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.				463,474
Intergovernmental Payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, are not reported in the funds.				(128,720)
Special Termination Benefits Payable includes payments not expected to be paid with available expendable resources and, therefore, are not reported in the funds.				(30,000)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:				
Bonds Payable	(1,950,000)			
Energy Conservation Loan Payable	(200,000)			
Accrued Interest Payable	(14,810)			
Compensated Absences	(845,855)			(3,010,665)
Net Assets of Governmental Activities				<u>\$14,035,880</u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$4,847,053	\$563,126	\$87,004	\$5,497,183
Intergovernmental	8,819,737	50,540	1,436,671	10,306,948
Interest	81,896	0	0	81,896
Tuition and Fees	41,063	0	0	41,063
Extracurricular Activities	0	0	201,057	201,057
Rentals	4,728	0	41,217	45,945
Charges for Services	0	0	380,254	380,254
Contributions and Donations	0	0	2,769	2,769
Miscellaneous	25,853	0	2,269	28,122
Total Revenues	13,820,330	613,666	2,151,241	16,585,237
Expenditures				
Current:				
Instruction:				
Regular	6,574,412	0	226,051	6,800,463
Special	673,555	0	424,347	1,097,902
Vocational	368,707	0	0	368,707
Adult/Continuing	3,522	0	0	3,522
Other	355,688	0	0	355,688
Support Services:				
Pupils	569,686	0	145,104	714,790
Instructional Staff	1,020,447	0	349,687	1,370,134
Board of Education	32,540	0	0	32,540
Administration	1,186,002	0	7,582	1,193,584
Fiscal	408,521	16,306	2,461	427,288
Operation and Maintenance of Plant	1,569,345	0	97,630	1,666,975
Pupil Transportation	921,197	0	912	922,109
Central	73,708	0	14,480	88,188
Operation of Non-Instructional Services:				
Food Service Operations	0	0	848,484	848,484
Other Non-Instructional Services	0	0	15,278	15,278
Extracurricular Activities	91,016	0	212,229	303,245
Capital Outlay	150,271	0	403,320	553,591
Debt Service:				
Principal Retirement	0	425,000	0	425,000
Interest and Fiscal Charges	0	204,125	0	204,125
Total Expenditures	13,998,617	645,431	2,747,565	17,391,613
Excess of Revenues Under Expenditures:	(178,287)	(31,765)	(596,324)	(806,376)
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	3,836	0	0	3,836
Transfers In	0	50,000	260,000	310,000
Transfers Out	(310,000)	0	0	(310,000)
Total Other Financing Sources (Uses)	(306,164)	50,000	260,000	3,836
Net Change in Fund Balances	(484,451)	18,235	(336,324)	(802,540)
Fund Balances Beginning of Year - Restated (Note-3)	1,261,894	862,479	776,441	2,900,814
Fund Balances End of Year	\$777,443	\$880,714	\$440,117	\$2,098,274

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
*Reconciliation of the Net Change in Fund Balances of Governmental
 Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$802,540)

Amounts reported for governmental activities in the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year:

Capital Assets Additions	971,293	
Current Year Depreciation	(474,847)	496,446

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	(42,845)	
Intergovernmental	151,847	109,002

Governmental funds only report the disposal of capital assets to the extent proceeds in the amount of \$3,836 were received. In the statement of activities, a loss has been reported for \$14,107. These amounts are used as a reconciling item between the statement of activities and the fund financial statements. (17,943)

Some expenses reported on the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(10,940)	
Special Termination Benefits	(20,000)	
Compensated Absences	(121,027)	(151,967)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 425,000

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. 1,401

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net loss of the internal service fund is reported with governmental activities. 45,284

Change in Net Assets of Governmental Activities \$104,683

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$4,472,930	\$4,472,930	\$4,764,397	\$291,467
Intergovernmental	8,348,714	8,919,877	8,718,271	(201,606)
Interest	116,900	116,900	83,807	(33,093)
Tuition and Fees	47,100	47,100	38,370	(8,730)
Rent	7,000	7,000	4,728	(2,272)
Miscellaneous	171,000	171,000	25,307	(145,693)
<i>Total Revenues</i>	13,163,644	13,734,807	13,634,880	(99,927)
Expenditures				
Current:				
Instruction:				
Regular	6,937,456	7,298,456	6,635,614	662,842
Special	654,032	684,032	696,707	(12,675)
Vocational	361,889	391,889	366,339	25,550
Adult/Continuing	0	0	3,522	(3,522)
Other	366,898	386,898	355,756	31,142
Support Services:				
Pupils	569,982	569,982	570,650	(668)
Instructional Staff	1,003,368	1,003,368	1,022,006	(18,638)
Board of Education	43,761	43,761	41,554	2,207
Administration	1,265,097	1,265,097	1,171,587	93,510
Fiscal	595,400	595,400	447,195	148,205
Operation and Maintenance of Plant	1,430,868	1,531,169	1,631,315	(100,146)
Pupil Transportation	956,611	956,611	1,059,402	(102,791)
Central	83,748	83,748	75,407	8,341
Extracurricular Activities	87,145	87,145	89,817	(2,672)
Capital Outlay	189,851	189,851	197,521	(7,670)
<i>Total Expenditures</i>	14,546,106	15,087,407	14,364,392	723,015
<i>Excess of Revenues Under Expenditures</i>	(1,382,462)	(1,352,600)	(729,512)	623,088
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	100	100	3,836	3,736
Refund of Prior Year Expenditures	0	0	1,491	1,491
Other Financing Sources	0	85,000	83,800	(1,200)
Advances Out	0	0	(2,173)	(2,173)
Transfers Out	0	0	(310,000)	(310,000)
Refund of Prior Year Receipts	0	0	(3,428)	(3,428)
<i>Total Other Financing Sources (Uses)</i>	100	85,100	(226,474)	(311,574)
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	(1,382,362)	(1,267,500)	(955,986)	311,514
<i>Fund Balance Beginning of Year</i>	1,172,763	1,172,763	1,172,763	0
Prior Year Encumbrances Appropriated	664,742	664,742	664,742	0
<i>Fund Balance End of Year</i>	\$455,143	\$570,005	\$881,519	\$311,514

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2003

	Medical-Dental-Prescription Insurance
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$696,974
Current Liabilities	
Claims Payable	233,500
Net Assets	
Unrestricted	\$463,474

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2003

	Medical-Dental-Prescription Insurance
Operating Revenues	
Charges for Services	\$2,271,737
Operating Expenses	
Purchased Services	49,864
Claims	2,208,135
<i>Total Operating Expenses</i>	2,257,999
<i>Operating Income</i>	13,738
Non-Operating Revenues	
Interest Income	31,546
<i>Change in Net Assets</i>	45,284
<i>Net Assets at Beginning of Year</i>	418,190
<i>Net Assets at End of Year</i>	\$463,474

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2003

	<u>Medical-Dental-Prescription Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,271,737
Cash Payments to Suppliers for Services	(49,864)
Cash Payments for Claims	<u>(2,160,035)</u>
<i>Net Cash Provided by Operating Activities</i>	61,838
Cash Flows from Investing Activities	
Interest on Investments	<u>31,546</u>
<i>Net Increase in Cash and Cash Equivalents</i>	93,384
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>603,590</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$696,974</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$13,738
Changes in Liabilities	
Increase in Claims Payable	<u>48,100</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$61,838</u></u>

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2003

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$4,169	\$24,109
Cash and Cash Equivalents in Segregated Accounts	0	1,413
Investments	6,891	0
	<u> </u>	<u> </u>
<i>Total Assets</i>	11,060	\$25,522
	<u> </u>	<u> </u>
Liabilities		
Due to Students	0	\$19,579
Undistributed Monies	0	5,943
	<u> </u>	<u> </u>
<i>Total Liabilities</i>	0	\$25,522
	<u> </u>	<u> </u>
Net Assets		
Held in Trust for Scholarships	\$11,060	
	<u> </u>	

See accompanying notes to the basic financial statements

Rolling Hills Local School District, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003

	Private Purpose Trust
Additions	
Interest	\$322
Deductions	
Payments in Accordance with Trust Agreements	300
Change in Net Assets	22
Net Assets Beginning of Year	11,038
Net Assets End of Year	<u>\$11,060</u>

See accompanying notes to the basic financial statements

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Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five member Board of Education who provides educational services as authorized by its charter and further mandated by state and federal agencies. This Board controls the School District's six instructional support facilities staffed by 92 classified employees and 142 certificated teaching and administrative personnel who provide services to 2,121 students.

Reporting Entity

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

Within the School District boundaries, Calvary Christian School is operated through Calvary Baptist Church. Current state legislation provides funding to this parochial school. These monies are received and disbursed by the School District on behalf of the parochial school and transportation is provided to their students. This activity is reflected in a special revenue fund for financial reporting purposes.

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

The School District participates in four organizations which are defined as jointly governed organizations and in two group insurance purchasing pools. These organizations include the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Mid-East Ohio Career and Technology Centers, the Metropolitan Educational Council, the Ohio School Boards Association Workers' Compensation Group Rating Plan, the East Central Ohio Special Education Regional Resource Center (ECO SERRC), and the Ohio School Plan. Additional information concerning these organizations is presented in Notes 16 and 17.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Debt Service Fund are the major funds of the School District. The following is a description of these funds:

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

Debt Service Fund The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest, and related costs.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

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

Internal Service Fund The internal service fund accounts 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. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical/surgical, prescription drug, and dental claims.

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

The School District has a segregated bank account for monies held separate from the School District's central bank account. This account maintains voluntary payroll deductions associated with the School District's flexible spending program. This interest bearing depository account is presented on the balance sheet as "cash and cash equivalents in segregated accounts" since it is not required to be deposited into the School District treasury.

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit which are reported at cost and STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Based upon board policy, the School District distributes interest to the General Fund, Food Service Special Revenue Fund, Self-Insurance Internal Service Fund, and the Private Purpose Trust Fund. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$81,896, which includes \$44,151 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories of governmental funds consist of expendable supplies held for consumption and donated and purchased food held for resale.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

H. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-20 years
Buildings and Improvements	5-50 years
Furniture and Equipment	5-20 years
Vehicles	10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

J. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization and a reserve for purchase of textbooks and instructional materials. See Note 19 for additional information regarding set asides.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave after seventeen years of current service for food service employees and nineteen years of current service for all other employees of the School District.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the General Fund.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

M. Interfund Activity

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

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for textbooks and instructional materials represents money required to be set-aside by statute for the purchase of textbooks and instructional materials.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, set-aside requirements, and federal and state grants restricted to expenditures for specified purposes.

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

R. 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.

S. Budgetary Data

All funds, other than agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate of estimated resources in effect at the time the final appropriations were passed by the Board.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Note 3 - Changes in Accounting Principles and Restatement of Fund Balances

Changes in Accounting Principles For fiscal year 2003, the School District has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, “Budgetary Comparison Schedules – Perspective Differences”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”.

GASB Statement No. 34 creates new basic financial statements for reporting the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures. At June 30, 2003, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective difference result in the School District not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of this statement did not affect the presentation of the budgetary statements of the School District.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balances The fund classification was updated during fiscal year 2003 to reclassify the Food Service Fund, previously presented as an enterprise fund, to a special revenue fund. Also the Emergency Levy and E-Rate Special Revenue Funds are now combined with the General Fund. These reclassifications and the implementation of Interpretation No. 6 along with other prior period adjustments had the following effects on fund balances of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balances to net assets of governmental activities is also presented.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
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	General	Debt Service	Nonmajor Funds	Total
Fund Balances, June 30, 2002	\$888,235	\$862,479	\$835,968	\$2,586,682
Fund Reclassifications:				
Food Service	0	0	(18,193)	(18,193)
Emergency Levy	53,195	0	(53,195)	0
E-Rate	11,218	0	(11,218)	0
Energy Conservation Adjustment	300,000	0	0	300,000
Interpretation No. 6:				
Long-Term Pension Obligation	0	0	14,214	14,214
Compensated Absences	9,246	0	8,865	18,111
Restated Fund Balances, June 30, 2002	\$1,261,894	\$862,479	\$776,441	2,900,814
GASB 34 Adjustments:				
Capital Assets				13,380,410
Internal Service Fund				418,190
Special Termination Benefits				(10,000)
Compensated Absences				(724,828)
Energy Conservation Loan				(300,000)
General Obligation Bonds Payable				(2,275,000)
Accrued Interest Payable				(16,211)
Intergovernmental Payable				(117,780)
Deferred Revenue				675,602
Governmental Activities Net Assets, June 30, 2002				\$13,931,197

The transition from proprietary fund equity to net assets of the business-type activities is as follows:

	Food Service
Fund Equity, June 30, 2002	\$110,901
Fund Reclassifications	(110,901)
Restated Business-Type Activities, June 30, 2002	\$0

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2003, the Title I Special Revenue Fund had a deficit fund balance in the amount of \$45,667. This deficit is due to adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Compliance

The Athletic and Music Special Revenue Fund and the Self-Insurance Internal Service Fund had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41, Ohio Revised Code in the amounts of \$1,751 and \$39,899, respectively. Management has indicated that expenditures will be closely monitored to ensure no future violation.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance

GAAP Basis	(\$484,451)
Net Adjustment for Revenue Accruals	(100,159)
Net Adjustment for Expenditure Accruals	(74,814)
Beginning of Fiscal Year:	
Prepaid Items	142,561
End of Fiscal Year:	
Prepaid Items	(159,661)
Advances Out	(2,173)
Adjustment for Encumbrances	(277,289)
Budget Basis	<u><u>(\$955,986)</u></u>

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 6 - Deposits and Investments

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

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

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

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 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 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 (STAROhio);

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
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7. Certain banker's acceptance 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 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 At fiscal year end, the carrying amount of the School District's deposits was \$3,101,693 and the bank balance was \$3,244,055. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$3,044,055 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District invests in STAROhio which is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The carrying value and market value of the School District's STAROhio account at June 30, 2003 is \$65,175.

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$3,159,977	\$6,891
Certificates of Deposit	6,891	(6,891)
STAROhio	(65,175)	65,175
GASB Statement 3	\$3,101,693	\$65,175

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2002, were levied after April 1, 2002, and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Guernsey, Muskingum and Noble Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real and personal property and public utility taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The amount available as an advance at June 30, 2003, was \$1,293,128. \$1,144,843 was available to the General Fund, \$127,654 to the Debt Service Fund, and \$20,631 was available to the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2002 was \$1,215,102. \$1,062,187 was available to the General Fund, \$133,566 to the Debt Service Fund, and \$19,349 was available to the Classroom Facilities Special Revenue Fund. The receivable is offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

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

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$106,031,510	59.94%	\$108,419,460	60.63%
Public Utility Personal	10,337,570	5.84%	9,971,090	5.58%
Tangible Personal Property	60,549,310	34.22%	60,431,430	33.79%
Total	\$176,918,390	100.00%	\$178,821,980	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$34.75		 \$34.60	

Note 8 - Receivables

Receivables at June 30, 2003, consisted of property taxes, accounts (rent, student fees and tuition), intergovernmental grants, interfund, and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
CAFS Reimbursement	\$32,186
Worker's Compensation Refund	292
School Lunch Reimbursement	43,101
Federal Grants	286,311
Total	\$361,890

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance			Balance
	<u>June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2003</u>
Nondepreciable Capital Assets				
Land	\$218,502	\$0	\$0	\$218,502
Depreciable Capital Assets				
Land Improvements	292,335	0	0	292,335
Buildings and Improvements	16,535,613	666,627	0	17,202,240
Furniture and Equipment	1,440,164	113,555	(22,755)	1,530,964
Vehicles	1,490,346	191,111	(103,118)	1,578,339
Total at Historical Cost	<u>19,758,458</u>	<u>971,293</u>	<u>(125,873)</u>	<u>20,603,878</u>
Less Accumulated Depreciation				
Land Improvements	(84,010)	(13,155)	0	(97,165)
Buildings and Improvements	(4,700,799)	(296,514)	0	(4,997,313)
Furniture and Equipment	(1,107,195)	(57,263)	15,124	(1,149,334)
Vehicles	(704,546)	(107,915)	92,806	(719,655)
Total Accumulated Depreciation	<u>(6,596,550)</u>	<u>(474,847) *</u>	<u>107,930</u>	<u>(6,963,467)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>13,161,908</u>	<u>496,446</u>	<u>(17,943)</u>	<u>13,640,411</u>
Governmental Activities Capital Assets, Net	<u>\$13,380,410</u>	<u>\$496,446</u>	<u>(\$17,943)</u>	<u>\$13,858,913</u>

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$150,919
Special	19,090
Vocational	5,930
Support Services:	
Pupils	22,852
Instructional Staff	25,694
Administration	29,846
Fiscal	5,930
Operation of Maintenance and Plant	33,014
Pupil Transportation	137,192
Central	2,965
Extracurricular	14,087
Operation of Non-Instructional Services:	
Food Service Operations	27,174
Other	154
	<u>154</u>
Total Depreciation Expense	<u>\$474,847</u>

Note 10 - Interfund Transfers and Balances

Transfers made during fiscal year 2003 were \$310,000 from the General Fund to the Food Service, Miscellaneous Local Funds, Athletic, and DPIA Special Revenue Funds, and to the Debt Service Fund in the amounts of \$80,000, \$45,000, \$125,000, \$10,000, and \$50,000, respectively. These transfers were made to help subsidize the operations of these activities.

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables:

	Receivable	Payable
General Fund	\$2,173	\$0
Title I	0	2,173
Total	<u>\$2,173</u>	<u>\$2,173</u>

The School District advanced monies from the General Fund to the Title I Special Revenue Fund to eliminate a negative cash balance at June 30, 2003. The advance will be repaid in fiscal year 2004.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Kennedy Insurance Agency, through Indiana Insurance, for property and fleet insurance. During fiscal year 2003, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. (See Note 17) Coverage provided is as follows:

<u>Indiana Insurance Company</u>		
Commercial Property Coverage Blanket	\$42,477,806	
Equipment Breakdown Coverage	\$125,000	
Commercial Crime Coverage	\$5,000	
Commercial Inland Marine Coverage	\$380,000	
Fleet Insurance:		
Liability	\$2,000,000	any one accident
Auto Medical Payments	\$5,000	any one accident
Uninsured Motorists	\$1,000,000	any one accident
Comprehensive	\$100,000	any one accident
Physical Damage	actual cash value	
Collision	\$100,000	
<u>Ohio School Plan</u>		
General Liability:		
Bodily Injury and Property Damage	\$1,000,000	each occurrence
Personal and Advertising Injury	\$1,000,000	each offense
Fire Damage	\$500,000	any one event
Medical Expense	\$10,000	each accident
General Aggregate	\$3,000,000	
Products Aggregate	\$1,000,000	
Employee Benefits Liability	\$1,000,000	
Aggregate	\$3,000,000	
Employers' Liability	\$1,000,000	
Errors and Omissions	\$1,000,000	
Aggregate	\$2,000,000	
Employment Practices	\$1,000,000	
Aggregate	\$2,000,000	

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2003.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Workers' Compensation

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). 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.

C. Employee Medical Benefits

The School District has elected to provide employee medical/surgical, dental, and prescription drug benefits through a self-insured internal service fund. Medical Benefits serves as claims servicer for these coverages. The claims liability of \$233,500 reported in the internal service fund at June 30, 2003 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. An additional internal stop-loss coverage policy covers individual claims up to \$30,000. An external insurer is retained for individual stop-loss coverage in excess of \$30,000 to \$1,000,000 annually.

Changes in the fund's claims liability amount in fiscal years 2002 and 2003 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2002	\$241,500	\$1,425,406	\$1,481,506	\$185,400
2003	185,400	2,208,135	2,160,035	233,500

Note 12 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year earn five to twenty days of vacation per fiscal year, depending upon length of service. Vacation can be accumulated to one year's worth of accrual plus ten days. Accumulated, unused vacation time, is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for certified employees and 210 days for classified employees. Upon retirement, certified employees receive payment for one-fourth of their total sick leave accumulation up to 60 days and classified employees receive payment for one-fourth of the total sick leave accumulation up to 52 days.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Insurance

The School District provides life insurance and accidental death and dismemberment insurance to all full-time employees through Union Central Insurance Company in the amount of \$20,000.

Note 13 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees System of Ohio (SERS), a cost-sharing multiple employer defined pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 E. Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$168,347, \$300,273, and \$278,474, respectively; 51 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$81,947 representing the unpaid contribution for fiscal year 2003, is recorded as a liability in the respective funds.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090..

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001, were \$856,427, \$909,528, and \$805,765 respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. Contributions for the DC and CP Plans for the fiscal year ended June 30, 2003, were \$2,861 made by the School District and \$2,850 made by plan members. The balance outstanding is reflected as an intergovernmental payable.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, one member of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System, (STRS), and to retired non-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 obligations to contribute are established by the System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District this amount equaled \$65,879 for fiscal year 2003.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established as \$14,500. For the School District, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$148,793.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 15 - Long Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

	Principal Outstanding 6/30/2002	Additions	Reductions	Principal Outstanding 6/30/2003	Amounts Due in One Year
Governmental Activities					
1985 School Facilities Improvement - 9%					
General Obligation Bonds	\$2,275,000	\$0	\$325,000	\$1,950,000	\$325,000
1995 Energy Conservation Loan - 5.60%	300,000		100,000	200,000	100,000
Compensated Absences Payable	724,828	239,576	118,549	845,855	44,264
Total Governmental Activities					
Long-Term Liabilities	<u>\$3,299,828</u>	<u>\$239,576</u>	<u>\$543,549</u>	<u>\$2,995,855</u>	<u>\$469,264</u>

The 1985 School Facilities Improvement bonds were originally issued in the amount of \$7,435,000 for the purpose of constructing a high school, together with necessary parking, access roads and landscaping; acquiring and improving an existing school building; remodeling, improving and making additions to existing school buildings; and providing a sewage treatment plant, water service, furnishings and equipment for such school buildings. The bonds are being retired by the debt service fund from the collection of property taxes.

Rolling Hills Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

The 1995 Energy Conservation Loan was originally issued in the amount of \$999,000 for the purpose of modifications, installations, and remodeling of school buildings to reduce energy consumption. Property taxes are being utilized for the payment of this obligation from the Debt Service Fund.

Compensated absences will be paid from the fund in which the employees' salaries are paid. These funds include the General Fund and the Food Service, Title I, DPIA, and Miscellaneous Local Special Revenue Funds.

Principal and interest requirements to retire the long-term general obligation bonds outstanding at June 30, 2003, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$325,000	\$160,875	\$485,875
2005	325,000	131,625	456,625
2006	325,000	102,375	427,375
2007	325,000	73,125	398,125
2008	325,000	43,875	368,875
2009	325,000	14,625	339,625
Totals	<u>\$1,950,000</u>	<u>\$526,500</u>	<u>\$2,476,500</u>

Principal and interest requirements to retire the Energy Conservation Notes outstanding at June 30, 2003, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$100,000	\$8,400	\$108,400
2005	100,000	2,800	102,800
Totals	<u>\$200,000</u>	<u>\$11,200</u>	<u>\$211,200</u>

The overall debt margin of the School District as of June 30, 2003, was \$14,897,038, with an unvoted debt margin of \$178,822.

Note 16 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. OME-RESA is governed by a governing board which is selected by the member districts. OME-RESA possesses its own budgeting authority. The School District's payment for computer services to OME-RESA in fiscal year 2003 was \$3,840. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Mid-East Ohio Career and Technology Centers

The Mid-East Ohio Career and Technology Centers is a jointly governed organization providing vocational services to its thirteen member school districts. The Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the vocational school is not dependent on the District's continued participation and no equity interest exists. To obtain financial information write to the Mid-East Ohio Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

C. Metropolitan Educational Council

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 100 members which includes school district, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the cost of administering the program. The School District's membership payment to MEC for fiscal year 2003 was \$848. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd, Suite 604, Columbus, Ohio 43232.

D. East Central Ohio Special Education Regional Resource Center

The East Central Ohio Special Education Regional Resource Center (ECO SERRC) is a special education regional resource center which selects its own board, adopts its own budget, and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO SERRC is governed by a board composed of superintendents of member school districts in east central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO SERRC. ECO SERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for ECO SERRC. During fiscal year 2003, the School District paid \$6,173 to ECO SERRC. Financial information can be obtained by contacting Julie A Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Education Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

Note 17 - Insurance Purchasing Pools

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP'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 program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

The School District is currently not a party to any material legal proceedings.

Note 19 - Set Asides

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at year end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may, at the discretion of the board, be returned to the district's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation refund monies remaining in the budget reserve set-aside.

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

Rolling Hills Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance			
as of June 30, 2003	\$52,198	\$20,391	\$67,981
Current Year Set-aside Requirement	276,671	276,671	0
Current Year Offsets	0	(85,722)	0
Qualifying Disbursements	<u>(234,725)</u>	<u>(221,513)</u>	<u>0</u>
Total	<u>\$94,144</u>	<u>(\$10,173)</u>	<u>\$67,981</u>
Set-aside Balance Carried Forward			
to Future Fiscal Years	<u>\$94,144</u>	<u>\$0</u>	<u>\$67,981</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amount to below zero. This extra amount may be used to reduce the set-aside requirement in future years. The total reserve balance for the three set-asides as the end of the fiscal year was \$162,125.

Note 20 - 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 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 its future State funding and on its financial operations.

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<u>U.S. Department of Agriculture</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$76,460	\$0	\$76,460
School Breakfast Program	047308-05-PU-02 047308-05-PU-03	10.553 10.553	16,258 46,287		16,258 46,287	
Total School Breakfast Program			62,545		62,545	
National School Lunch Program	047308-LL-P4-02 047308-LL-P4-03	10.555 10.555	61,240 180,662		61,240 180,662	
Total National School Lunch Program			241,902		241,902	
Total U.S. Department of Agriculture - Child Nutrition Cluster			304,447	76,460	304,447	76,460
<u>U.S. Department of Education</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I, Grants to Local Educational Agencies	047308-C1-S1-02 047308-C1-S1-03	84.010 84.010	34,928 410,193		81,007 429,626	
Total Title I			445,121		510,633	
Special Education Grants to States (Title VI-B)	047308-6B-SF-02P 047308-6B-SF-03P	84.027 84.027	158,570		24,108 166,133	
Total Special Education Grants to States			158,570		190,241	
Safe and Drug-Free Schools and Communities State Grants	047308-DR-S1-01 047308-DR-S1-02 047308-DR-S1-03	84.186 84.186 84.186	2,599		630 25 1,469	
Total Safe and Drug-Free Schools and Communities State Grants			2,599		2,124	
Goals 2000 - State and Local Education Systematic Improvement Grants	047308-G2-S2-02	84.276			3,834	
Eisenhower Professional Development State Grants	047308-MS-S1-01	84.281	1,177		2,785	
Innovative Education Program Strategies (Title VI)	047308-C2-S1-01 047308-C2-S1-03	84.298 84.298	3,475		157 2,460	
Total Innovative Education Program Strategies			3,475		2,617	
Education Technology State Grants	047308-TJ-S1-03	84.318	4,940		7,547	
Class Size Reduction (Title VI-R)	047308-CR-S1-02	84.340	5,901		12,772	
Improving Teacher Quality State Grants	047308-TR-S1-03	84.367	68,569		63,187	
Total U.S. Department of Education			690,352	0	795,740	0

ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<u>U.S. Department of Health and Human Services</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program (Medicaid, Title XIX)	N/A	93.778	<u>84,053</u>		<u>84,053</u>	
Total U.S. Department of Health and Human Services			<u>84,053</u>		<u>84,053</u>	
Total Federal Awards Receipts and Expenditures			<u><u>\$1,078,852</u></u>	<u><u>\$76,460</u></u>	<u><u>\$1,184,240</u></u>	<u><u>\$76,460</u></u>

The accompanying Notes to this Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.

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Auditor of State Betty Montgomery

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

Rolling Hills Local School District
Guernsey County
P.O. Box 38
Byesville, Ohio 43723

To the Board of Education:

We have audited the accompanying basic financial statements of Rolling Hills Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 24, 2004, wherein we noted the School District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's basic 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 School District in a separate letter dated March 24, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated March 24, 2004.

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Rolling Hills Local School District
Guernsey County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

Betty Montgomery
Auditor of State

March 24, 2004



**Auditor of State
Betty Montgomery**

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

Rolling Hills Local School District
Guernsey County
P.O. Box 38
Byesville, Ohio 43723

To the Board of Education:

Compliance

We have audited the compliance of Rolling Hills Local School District, Guernsey County, Ohio (the School 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, 2003. The 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 the School District's management. Our responsibility is to express an opinion on the 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 the 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 the District's compliance with those requirements.

In our opinion, the 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, 2003.

Internal Control Over Compliance

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

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www.auditor.state.oh.us

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

Betty Montgomery
Auditor of State

March 24, 2004

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

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

**ROLLING HILLS LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003
(Continued)**

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

There were no findings related to the financial statements required to be reported herein.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards that were required to be reported herein.



**Auditor of State
Betty Montgomery**

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800-282-0370

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ROLLING HILLS LOCAL SCHOOL DISTRICT

GUERNSEY 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
MAY 11, 2004**