



**Auditor of State
Betty Montgomery**

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

TABLE OF CONTENTS

Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	4
Statement of Net Assets	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets Of Governmental Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual General Fund	18
Statement of Fiduciary Assets and Liabilities – Agency Funds	19
Notes to the Basic Financial Statements	21
Schedule of Federal Awards Receipts and Expenditures.....	47
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	48
Independent Accountants' Report On Compliance and On Internal Control Required By <i>Government Auditing Standards</i>	49
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	51
Schedule of Findings.....	53
Schedule of Prior Audit Finding	56

THIS PAGE INTENTIONALLY LEFT BLANK



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Highland Local School District
Morrow County
6506 State Route 229
P.O. Box 98
Sparta, Ohio 43350-0089

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Highland Local School District, Morrow County, Ohio, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards receipts and expenditures is presented for the purposes of additional analysis 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

December 19, 2003

THIS PAGE INTENTIONALLY LEFT BLANK

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

The discussion and analysis of Highland 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 notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2003 were as follows:

Fiscal year 2003 was a relatively inactive year when compared to all of the improvements we were able to accomplish in fiscal year 2002, such as the Richard D. Slack Learning Center, new bus garage, and improvements to the athletic facilities. Capital improvements for fiscal year 2003 were limited to basic maintenance and routine replacement of equipment. The Highland North and West Elementary buildings had roof maintenance work done. West Elementary also had the boiler heating units converted to natural gas. The high school and middle school each added new wireless laptop mobile computer labs for use throughout their respective buildings.

Much of the second-half of fiscal 2003 was consumed with union contract negotiations for both the certified staff (teacher's union) and the classified employees (support staff). The teacher's contract was efficiently presented and completed without delay. This two year contract ending in June 2005 implemented language for permanent substitutes, expanded professional development opportunities, and settled on an annual three percent pay increase. The classified employee's union also ended with a two year contract. These negotiations largely focused on fair-share, health insurance, and wages. After an exhausting amount of time and effort, the contract was agreed to and a new wage index was instituted.

Financially, total net assets increased \$543,336 from \$12,949,565 to \$13,492,901 (a 4.2 percent gain, Table 1). General operating revenues were advanced mainly by increases in property taxes and state foundation funding. General operating revenues (property taxes, income taxes, unrestricted state funding, interest, and miscellaneous) accounted for \$10,919,063, or 79 percent of all total revenues.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Highland Local School District as a financial whole, or as an entire operating entity.

The statement of net assets and the 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 a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in a single column.

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These 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 whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes 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 programs and services are reported as governmental activities including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the School District's most significant funds. The Highland Local School District has two major governmental funds - the General Fund and the Bond Retirement Fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using 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 government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2003 compared to fiscal year 2002:

Table 1
Net Assets

	Governmental Activities	
	2003	2002
<u>Assets:</u>		
Current and Other Assets	\$7,051,726	\$6,623,963
Capital Assets, Net	13,579,049	13,754,299
Total Assets	20,630,775	20,378,262
<u>Liabilities:</u>		
Current and Other Liabilities	3,848,923	3,885,250
Long-Term Liabilities	3,288,951	3,543,447
Total Liabilities	7,137,874	7,428,697
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	11,032,762	10,924,195
Restricted	2,272,012	1,629,215
Unrestricted	188,127	396,155
Total Net Assets	\$13,492,901	\$12,949,565

Total net assets increased \$543,336, or 4.2 percent. Total assets and liabilities remained fairly consistent with the prior fiscal year. There was a somewhat sizable increase in intergovernmental receivables at June 30 2003, when compared to the prior fiscal year as more grant dollars were received within the fiscal year in fiscal year 2002. The biggest change in liabilities was the reduction in long-term liabilities with the payment of principal, in the amount of \$170,000, on the School District's two general obligation bond issues, and \$113,817 on the energy conservation loan. The increase in restricted net assets is the result of the increases in grants, as well as a relatively sizable increase in set asides, those amounts required by State statute to be set aside for textbooks and instructional materials and for capital improvements. As a result of less amounts spent within the fiscal year for these purposes, greater dollars remained set aside at fiscal year end.

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

Table 2 reflects the changes in net assets from the prior fiscal year.

Table 2
Change in Net Assets

	Governmental Activities	
	2003	2002
<u>Revenues</u>		
Program Revenues:		
Charges for Services and Sales	\$476,312	\$516,987
Operating Grants, Contributions, and Interest	2,139,544	1,406,189
Capital Grants and Contributions	255,797	153,775
Total Program Revenues	<u>\$2,871,653</u>	<u>\$2,076,951</u>
General Revenues:		
Property Taxes	2,929,382	2,696,451
Income Taxes	644,267	655,917
Grants and Entitlements	7,113,831	6,573,324
Interest	69,568	122,748
Extracurricular Activities	85,070	0
Gifts and Donations	3,861	0
Miscellaneous	73,084	64,243
Total General Revenues	<u>10,919,063</u>	<u>10,112,683</u>
Total Revenues	<u>13,790,716</u>	<u>12,189,634</u>
<u>Expenses</u>		
Instruction	6,686,889	6,793,458
Support Services:		
Pupils	612,979	235,772
Instructional Staff	1,186,575	1,069,854
Board of Education	127,466	166,790
Administration	1,053,168	919,643
Fiscal	270,542	249,762
Operation and Maintenance of Plant	1,170,804	1,084,815
Pupil Transportation	1,036,044	959,548
Central	8,151	10,746
Non-Instructional Services	619,881	582,101
Extracurricular Activities	311,349	271,424
Interest and Fiscal Charges	163,532	174,181
Total Expenses	<u>13,247,380</u>	<u>12,518,094</u>
Increase in Net Assets	<u>\$543,336</u>	<u>(\$328,460)</u>

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

Program revenues represent charges for services such as food service/lunches and extracurricular activities/athletic events. The operating grants and contributions revenues are restricted intergovernmental resources, which are directly associated with certain governmental activities such as special education funding and food service subsidies. For fiscal year 2003, much of the increase in program related intergovernmental revenues was due to the addition of the 21st Century Grant.

Program expenses for instruction represent just over 50 percent of all governmental expenses. Expenses for pupils support services experienced an increase of \$377,207 largely as a result of spending associated with the 21st Century Grant program. Combined with the support services related to instruction, over 81 percent of all of the School District's expenses and are related to the primary functions of delivering education and maintaining facilities.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2003	2002	2003	2002
Instruction	\$6,686,889	\$6,793,458	\$5,397,791	\$5,891,142
Support Services:				
Pupils	612,979	235,772	324,376	174,787
Instructional Staff	1,186,575	1,069,854	1,186,575	585,066
Board of Education	127,466	166,790	127,466	166,790
Administration	1,053,168	919,643	1,053,168	919,643
Fiscal	270,542	249,762	249,052	249,762
Operation and Maintenance of Plant	1,170,804	1,084,815	1,153,304	1,076,357
Pupil Transportation	1,036,044	959,548	919,691	903,109
Central	8,151	10,746	8,151	4,288
Non-Instructional Services	619,881	582,101	(425,873)	95,746
Extracurricular Activities	311,349	271,424	218,494	200,272
Interest and Fiscal Charges	163,532	174,181	163,532	174,181
Total Expenses	<u>\$13,247,380</u>	<u>\$12,518,094</u>	<u>\$10,375,727</u>	<u>\$10,441,143</u>

The School District's dependence on unrestricted state entitlements and local taxes for governmental activities is apparent. Nearly 81 percent of instruction activities are supported through unrestricted state funding and local tax revenues. For all governmental activities, support from general revenues is 78 percent, a decrease of 5 percent from the amount of general revenues needed to support governmental activities in the prior fiscal year.

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

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$13,683,851 and expenditures of \$13,301,964 resulting in a net increase in fund balance of \$381,887. The General Fund's increase in fund balance, in the amount of \$216,097, is partially the result of increased state aid associated with higher enrollment and additional parity aid in fiscal year 2003.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon 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 year 2003, the School District amended its General Fund budget as needed. Final budgeted revenues were \$10,742,200 and were slightly higher than the original estimate of \$10,569,950, a 1.6 percent difference. The difference of \$172,250 was mostly from higher than expected state aid based on increased enrollment during fiscal year 2003. Interest revenue was reduced in the final revenue estimates to reflect continued dismal returns in the investment market.

Final expenditures were budgeted at \$11,014,461 while actual expenditures were slightly lower at \$10,615,531. This change was just a little over 3 percent.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$13,579,049 invested in capital assets (net of accumulated depreciation) for governmental activities, a 1 percent decrease from the prior fiscal year. The decrease is the result of accumulated depreciation. The only major capital assets added in fiscal year 2003 were two new 72-passenger school buses, purchased at a cost of \$130,713. For further information regarding the School District's capital assets, see Note 10 to the basic financial statements.

Debt

As of the end of the 2003 fiscal year, the School District had two outstanding general obligation bonds. The 1980 Jr. High construction bonds had a remaining balance of \$100,000, with final payment due in December 2003. The 1997 Classroom Facilities bonds had an outstanding balance of \$2,265,000 and won't be fully retired until 2020. The School District also had an outstanding energy conservation loan, with an outstanding balance of \$181,287. The loan will be fully retired in 2005. For further information regarding the School District's debt, see Note 15 to the basic financial statements.

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

Current Issues

Funding

Highland Local School District is a rural school district in southern Morrow County serving approximately 1780 students. The School District has historically received approximately 75 percent of its operating revenues through the state foundation formula for school funding. This funding calculation is affected by local property valuation changes - as valuations increase, the state funding is decreased. Since 1998, local property valuations have increased 58 percent or \$56 million, from \$78 million to \$134 million in 2002. This increase represents a dramatic shift in revenues to the School District of less state funding and more local dependence on property tax collections. However, funding amounts reduced by the state's basic aid formula due to valuation increases remains less than the increases in property tax revenues. Adjustments to the funding formula by the state to phase in parity aid have contributed the most significant amount revenue to the School District over the past two fiscal years.

Budget

Fiscal year 2003 reflects minimal capital related expenditures as well as basic spending necessary instructional materials. In the current climate of slower and uncertain revenue growth, obligating only known resources is essential. Nearly 80 percent of the General Fund budget is expended for employee wages and fringe benefits. These costs, including health benefits, continue to rise at a rate exceeding recent revenue growth. The challenge will be to address the expenditure and revenue trends to maintain the high level of excellent education.

Facilities

The School District has been very pleased with the addition of the Richard D. Slack Learning Center and bus garage in fiscal 2002. The Slack Center is located adjacent to the Middle School and Highland Community Park. The school encourages the use of this new facility for community events.

Also, the School District has initiated discussions with a design architect and the Ohio School Facilities Commission to develop a plan for future facility needs. This plan is to be presented and discussed in early 2004.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jon Mason, Treasurer, Highland Local School District, P.O. Box 98, Sparta, Ohio 43350.

Highland Local School District
Statement of Net Assets
June 30, 2003

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,470,113
Accounts Receivable	27,750
Accrued Interest Receivable	9,156
Intergovernmental Receivable	141,028
Income Taxes Receivable	272,338
Prepaid Items	90,553
Inventory Held for Resale	24,459
Materials and Supplies Inventory	66,897
Property Taxes Receivable	2,949,432
Nondepreciable Capital Assets	135,673
Depreciable Capital Assets, Net	13,443,376
Total Assets	20,630,775
 <u>Liabilities:</u>	
Accounts Payable	53,964
Accrued Wages and Benefits Payable	1,348,159
Intergovernmental Payable	394,018
Matured Compensated Absences Payable	104
Deferred Revenue	2,040,295
Accrued Interest Payable	12,383
Long-Term Liabilities:	
Due Within One Year	326,179
Due in More Than One Year	2,962,772
Total Liabilities	7,137,874
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	11,032,762
Restricted For:	
Set Asides	560,644
Debt Service	1,134,751
Capital Projects	133,121
Other Purposes	443,496
Unrestricted	188,127
Total Net Assets	\$13,492,901

See Accompanying Notes to Basic Financial Statements

Highland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$5,136,071	\$43,323	\$208,488	\$18,090
Special	1,487,611	7,111	905,315	48,809
Vocational	63,207	3,087	54,875	0
Support Services:				
Pupils	612,979	0	288,603	0
Instructional Staff	1,186,575	0	0	0
Board of Education	127,466	0	0	0
Administration	1,053,168	0	0	0
Fiscal	270,542	0	21,490	0
Operation and Maintenance of Plant	1,170,804	0	0	17,500
Pupil Transportation	1,036,044	1,800	0	114,553
Central	8,151	0	0	0
Non-Instructional Services	619,881	328,136	660,773	56,845
Extracurricular Activities	311,349	92,855	0	0
Interest and Fiscal Charges	163,532	0	0	0
Total Governmental Activities	<u>\$13,247,380</u>	<u>\$476,312</u>	<u>\$2,139,544</u>	<u>\$255,797</u>

General Revenues:

Property Taxes Levied for General Purposes
Property Taxes Levied for Classroom Facilities Purposes
Property Taxes Levied for Debt Service Purposes
Income Taxes Levied for General Purposes
Grants and Entitlements not Restricted to Specific Programs
Interest
Extracurricular Activities
Gifts and Donations
Miscellaneous
Total General Revenues

Change in Net Assets

Net Assets Beginning of Year
Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental
Activities

(\$4,866,170)
(526,376)
(5,245)

(324,376)
(1,186,575)
(127,466)
(1,053,168)
(249,052)
(1,153,304)
(919,691)
(8,151)
425,873
(218,494)
(163,532)
(10,375,727)

2,516,180
23,129
390,073
644,267
7,113,831
69,568
85,070
3,861
73,084

10,919,063

543,336

12,949,565
\$13,492,901

Highland Local School District
Balance Sheet
Governmental Funds
June 30, 2003

	General	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,275,739	\$1,025,267	\$599,624	\$2,900,630
Accounts Receivable	17,769	0	9,981	27,750
Accrued Interest Receivable	9,156	0	0	9,156
Intergovernmental Receivable	41,566	0	99,462	141,028
Income Taxes Receivable	272,338	0	0	272,338
Prepaid Items	85,437	0	5,116	90,553
Inventory Held for Resale	0	0	24,459	24,459
Materials and Supplies Inventory	63,393	0	3,504	66,897
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	569,483	0	0	569,483
Property Taxes Receivable	2,573,793	355,789	19,850	2,949,432
Total Assets	\$4,908,674	\$1,381,056	\$761,996	\$7,051,726
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$30,382	\$0	\$23,582	\$53,964
Accrued Wages and Benefits Payable	1,244,924	0	103,235	1,348,159
Intergovernmental Payable	242,896	0	11,722	254,618
Matured Compensated Absences Payable	104	0	0	104
Deferred Revenue	2,039,118	261,321	101,189	2,401,628
Total Liabilities	3,557,424	261,321	239,728	4,058,473
<u>Fund Balances:</u>				
Reserved for Property Taxes	585,762	90,663	5,279	681,704
Reserved for Textbooks	319,650	0	0	319,650
Reserved for Capital Improvements	196,527	0	0	196,527
Reserved for Budget Stabilization	44,467	0	0	44,467
Reserved for Bus Purchase	8,839	0	0	8,839
Reserved for Encumbrances	35,879	0	114,518	150,397
<u>Unreserved, Reported in:</u>				
General Fund	160,126	0	0	160,126
Special Revenue Funds	0	0	282,702	282,702
Debt Service Fund	0	1,029,072	0	1,029,072
Capital Projects Funds	0	0	119,769	119,769
Total Fund Balances	1,351,250	1,119,735	522,268	2,993,253
Total Liabilities and Fund Balances	\$4,908,674	\$1,381,056	\$761,996	\$7,051,726

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 June 30, 2003

Total Governmental Fund Balances \$2,993,253

Amounts reported for governmental activities on 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. 13,579,049

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	46,394	
Intergovernmental Receivable	79,679	
Income Taxes Receivable	35,989	
Property Taxes Receivable	199,271	
		361,333

Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds. (139,400)

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(12,383)	
General Obligation Bonds Payable	(2,365,000)	
Energy Conservation Loans Payable	(181,287)	
Compensated Absences Payable	(742,664)	
		(3,301,334)

Net Assets of Governmental Activities \$13,492,901

See Accompanying Notes to the Basic Financial Statements

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

	General	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$2,489,337	\$386,970	\$22,091	\$2,898,398
Income Taxes	654,083	0	0	654,083
Intergovernmental	7,746,399	47,398	1,526,408	9,320,205
Interest	77,476	0	0	77,476
Tuition and Fees	0	0	41,239	41,239
Extracurricular Activities	7,691	0	177,845	185,536
Charges for Services	0	0	328,127	328,127
Gifts and Donations	0	0	28,309	28,309
Miscellaneous	130,584	0	19,894	150,478
Total Revenues	<u>11,105,570</u>	<u>434,368</u>	<u>2,143,913</u>	<u>13,683,851</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	4,856,415	0	145,659	5,002,074
Special	1,274,576	0	194,832	1,469,408
Vocational	59,578	0	0	59,578
Support Services:				
Pupils	399,394	0	211,081	610,475
Instructional Staff	475,438	0	693,331	1,168,769
Board of Education	127,466	0	0	127,466
Administration	946,278	0	94,146	1,040,424
Fiscal	256,773	10,851	578	268,202
Operation and Maintenance of Plant	1,072,825	0	75,405	1,148,230
Pupil Transportation	1,034,625	0	0	1,034,625
Central	0	0	7,459	7,459
Non-Instructional Services	0	0	578,534	578,534
Extracurricular Activities	196,105	0	87,422	283,527
Capital Outlay	6,000	0	49,265	55,265
Debt Service:				
Principal Retirement	0	170,000	113,817	283,817
Interest and Fiscal Charges	0	151,162	12,949	164,111
Total Expenditures	<u>10,705,473</u>	<u>332,013</u>	<u>2,264,478</u>	<u>13,301,964</u>
Excess of Revenues Over (Under) Expenditures	<u>400,097</u>	<u>102,355</u>	<u>(120,565)</u>	<u>381,887</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	0	0	184,000	184,000
Transfers Out	(184,000)	0	0	(184,000)
Total Other Financing Sources (Uses)	<u>(184,000)</u>	<u>0</u>	<u>184,000</u>	<u>0</u>
Net Change in Fund Balances	216,097	102,355	63,435	381,887
Fund Balances at Beginning of Year	1,135,153	1,017,380	458,833	2,611,366
Fund Balances at End of Year	<u>\$1,351,250</u>	<u>\$1,119,735</u>	<u>\$522,268</u>	<u>\$2,993,253</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$381,887

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

Governmental funds report capital outlays as expenditures. However, on 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 depreciation exceeded capital outlay in the current fiscal year:

Capital Outlay	158,746	
Depreciation	(332,808)	
	(174,062)	(174,062)

The cost of capital assets is removed from the capital asset account on the statement of net assets when disposed, resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(1,188)
------------------------------------	--	---------

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

Property Taxes	30,984	
Income Taxes	(9,816)	
Intergovernmental	79,591	
Interest	(7,908)	
Tuition and Fees	1,878	
Extracurricular Activities	80	
Charges for Services	9	
Miscellaneous	12,047	
	106,865	106,865

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

283,817

Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the statement of net assets.

Accrued Interest Payable		579
--------------------------	--	-----

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(25,241)	
Compensated Absences Payable	(29,321)	
	(54,562)	(54,562)

Change in Net Assets of Governmental Activities \$543,336

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
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 Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$2,383,349	\$2,358,349	\$2,386,690	\$28,341
Income Taxes	625,000	650,000	680,725	30,725
Intergovernmental	7,398,151	7,664,151	7,746,399	82,248
Interest	125,000	50,000	69,900	19,900
Extracurricular Activities	5,250	6,500	7,691	1,191
Miscellaneous	33,200	13,200	47,337	34,137
Total Revenues	<u>10,569,950</u>	<u>10,742,200</u>	<u>10,938,742</u>	<u>196,542</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	5,106,370	5,109,087	4,863,700	245,387
Special	1,151,419	1,151,419	1,267,808	(116,389)
Vocational	60,749	60,750	55,862	4,888
Support Services:				
Pupils	335,900	335,900	365,135	(29,235)
Instructional Staff	579,216	579,216	492,075	87,141
Board of Education	218,323	218,323	112,299	106,024
Administration	922,850	922,850	923,462	(612)
Fiscal	259,350	259,350	258,886	464
Operation and Maintenance of Plant	1,087,656	1,087,656	1,065,301	22,355
Pupil Transportation	1,019,610	1,092,610	1,015,036	77,574
Extracurricular Activities	191,300	191,300	189,967	1,333
Capital Outlay	6,000	6,000	6,000	0
Total Expenditures	<u>10,938,743</u>	<u>11,014,461</u>	<u>10,615,531</u>	<u>398,930</u>
Excess of Revenues Over (Under) Expenditures	<u>(368,793)</u>	<u>(272,261)</u>	<u>323,211</u>	<u>595,472</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	50,000	80,000	81,232	1,232
Other Financing Uses	(41,000)	(41,000)	0	41,000
Transfers Out	(184,000)	(184,000)	(184,000)	0
Total Other Financing Sources (Uses)	<u>(175,000)</u>	<u>(145,000)</u>	<u>(102,768)</u>	<u>42,232</u>
Net Change in Fund Balance	(543,793)	(417,261)	220,443	637,704
Fund Balance at Beginning of Year	1,564,142	1,564,142	1,564,142	0
Prior Year Encumbrances Appropriated	24,254	24,254	24,254	0
Fund Balance at End of Year	<u>\$1,044,603</u>	<u>\$1,171,135</u>	<u>\$1,808,839</u>	<u>\$637,704</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2003

Assets:

Equity in Pooled Cash and Cash Equivalents	\$23,288
--	----------

Liabilities:

Undistributed Assets	825
Due to Students	22,463
Total Liabilities	\$23,288

See Accompanying Notes to the Basic Financial Statements

THIS PAGE INTENTIONALLY LEFT BLANK

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1960. The School District serves an area of approximately one hundred forty-four square miles and is located in Morrow and Delaware Counties. The School District is the 316th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by eighty-eight classified employees, one hundred nineteen certified teaching personnel, and fourteen administrative employees who provide services to 1,780 students and other community members. The School District currently operates three elementary schools, a middle school, and a high school.

Reporting Entity

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

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

The School District participates in five jointly governed organizations and two insurance pools, and is associated with a related organization. These organizations are the Tri-Rivers Educational Computer Association, Tri-Rivers Joint Vocational School, Highland Community Joint Recreation Board, North Central Ohio Special Education Regional Resource Center, North Central Regional Professional Development Center, Ohio School Plan, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Selover Public Library. These organizations are presented in Notes 18, 19, and 20 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial 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 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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. 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. 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. The funds of the School District are divided into two categories, governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 School District's two major funds are the General Fund and the Bond Retirement debt service fund.

Note 2 - Summary of Significant Accounting Policies (continued)

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

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for and the payment of principal and interest on general obligation bonds.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2003. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities and payroll withholdings.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of 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 (e.g., revenues) and decreases (e.g., 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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

Note 2 - Summary of Significant Accounting Policies (continued)

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. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the accrual basis of accounting. Differences in the accrual and 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 Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income 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. Revenue from income taxes is recognized in the fiscal year in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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 both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and charges for services.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, are 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 are reported as deferred revenue.

Note 2 - Summary of Significant Accounting Policies (continued)

Expenses/Expenditures

On the accrual basis, 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. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

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

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

F. Cash and Investments

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 School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2003 was \$77,476, which includes \$34,375 assigned from other School District funds.

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

G. 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 purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies and donated and purchased food.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for textbooks, capital improvements, and budget stabilization, as well as unexpended revenues restricted for bus purchases.

J. Capital Assets

All of the School District's capital assets are general capital assets resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of two thousand five hundred dollars. 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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

All 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>Useful Lives</u>
Land Improvements	30 - 40 years
Buildings and Building Improvements	20 - 100 years
Furniture, Fixtures, and Equipment	5 - 50 years
Vehicles	10 years

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 the School District will compensate the employees for the benefits through time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure 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 fund from which the employees who have accumulated unpaid leave are paid.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on 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, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year.

Note 2 - Summary of Significant Accounting Policies (continued)

M. 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 balance of any borrowing 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, and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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 which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, textbooks, capital improvements, budget stabilization, bus purchase, and encumbrances.

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

O. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

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.

P. 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 management and are either unusual in nature or infrequent in occurrence.

Q. 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.

Note 3 - Change in Accounting Principles

For fiscal year 2003, the School District has implemented GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences". GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the School District uses for its legally adopted budget when significant budgetary perspective differences result in the School District not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the School District's financial statements for fiscal year 2003.

Note 4 - Compliance

For the fiscal year ended June 30, 2003, the Food Service and Technology E-Rate special revenue funds and the Permanent Improvement capital projects fund had appropriations in excess of estimated resources plus available balances, in the amount of \$36,901, \$679, and \$122,658, respectively. The Treasurer will review budgeted resources to ensure they are sufficient for amounts appropriated.

Contrary to Ohio Law, the School District's Food Service, Title Idea, DOE RAHS Grant, and the 21st Century Grant special revenue funds and Building Improvement capital projects fund had significant negative balances at various times throughout the fiscal year. The School District will more closely monitor budgetary procedures for violations of this nature in the future.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances 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 Balance - Budget (Non-GAAP Basis) and Actual 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 the GAAP basis are as follows:

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

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

Note 5 - Budgetary Basis of Accounting (continued)

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Net Change in Fund Balance	
GAAP Basis	\$216,097
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2002, Received in Cash FY 2003	789,908
Accrued FY 2003, Not Yet Received in Cash	(875,504)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(1,412,996)
Accrued FY 2003, Not Yet Paid in Cash	1,518,306
Prepaid Items	3,153
Materials and Supplies Inventory	17,862
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(36,383)
Budget Basis	\$220,443

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 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.

Note 6 - Deposits and Investments (continued)

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Note 6 - Deposits and Investments (continued)

At fiscal year end, the School District had \$800 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Cash Equivalents”.

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

At fiscal year end, the carrying amount of the School District’s deposits was \$1,771,978 and the bank balance was \$1,967,395. Of the bank balance, \$115,696 was covered by federal depository insurance and \$1,851,699 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.

The School District’s investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District’s name. Category 2 includes uninsured and unregistered investments for which the securities 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’s investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2003, the fair value of funds on deposit with STAR Ohio was \$1,720,623.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”. A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$3,493,401	\$0
Cash on Hand	(800)	0
Investments:		
STAR Ohio	(1,720,623)	1,720,623
GASB Statement No. 3	\$1,771,978	\$1,720,623

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

Note 7 - Receivables

Receivables at June 30, 2003, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. 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 the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	\$41,566
Other Governmental Funds	
Athletic	249
Title Idea	16,000
Title V	8,271
Title II-A	4,000
DOE RAHS Grant	70,942
Total Other Governmental Funds	<u>99,462</u>
Total Intergovernmental Receivables	<u>\$141,028</u>

Note 8 - Income Taxes

The School District levies a voted tax of ½ percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 9 - Property Taxes

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

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

Note 9 - Property Taxes (continued)

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 35 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, 2001, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 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 year 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 25 percent of true value for capital assets and 24 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; however, this settlement was not received by the School District within fiscal year 2003.

The School District receives property taxes from Morrow and Delaware 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 counties 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 represents the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003, and for which there was 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 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003, was \$585,762 in the General Fund, \$5,279 in the Classroom Facilities special revenue fund, and \$90,663 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2002, was \$487,197 in the General Fund, \$4,631 in the Classroom Facilities special revenue fund, and \$76,154 in the Bond Retirement debt service fund.

The late tax settlement made by the Counties for fiscal year 2003 was \$24,157 in the General Fund, \$200 in the Classroom Facilities special revenue fund, and \$3,805 in the Bond Retirement debt service fund. For fiscal year 2002, these amounts were \$20,075 in the General Fund, \$166 in the Classroom Facilities special revenue fund, and \$3,162 in the Bond Retirement debt service fund.

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

Note 9 - Property Taxes (continued)

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

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

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$103,320,260	85.49%	\$107,973,730	85.82%
Industrial/Commercial	9,181,310	7.60	9,316,370	7.40
Public Utility	5,165,120	4.27	4,662,890	3.71
Tangible Personal	3,191,330	2.64	3,865,350	3.07
Total Assessed Value	<u>\$120,858,020</u>	<u>100.00%</u>	<u>\$125,818,340</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$22.85		\$22.35	

Note 10 - Capital Assets

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

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$135,673	\$0	\$0	\$135,673
Depreciable Capital Assets				
Land Improvements	231,548	0	0	231,548
Buildings and Building Improvements	13,299,136	0	0	13,299,136
Furniture, Fixtures, and Equipment	746,894	28,033	(3,100)	771,827
Vehicles	1,368,787	130,713	0	1,499,500
Total Depreciable Capital Assets	<u>15,646,365</u>	<u>158,746</u>	<u>(3,100)</u>	<u>15,802,011</u>

(continued)

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

Note 10 - Capital Assets (continued)

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Less Accumulated Depreciation				
Land Improvements	(\$4,996)	(\$7,573)	\$0	(\$12,569)
Buildings and Building Improvements	(940,319)	(160,196)	0	(1,100,515)
Furniture, Fixtures, and Equipment	(314,246)	(51,305)	1,912	(363,639)
Vehicles	(768,178)	(113,734)	0	(881,912)
Total Accumulated Depreciation	<u>(2,027,739)</u>	<u>(332,808)</u>	<u>1,912</u>	<u>(2,358,635)</u>
Depreciable Capital Assets, Net	<u>13,618,626</u>	<u>(174,062)</u>	<u>(1,188)</u>	<u>13,443,376</u>
Governmental Activities Capital Assets, Net	<u>\$13,754,299</u>	<u>(\$174,062)</u>	<u>(\$1,188)</u>	<u>\$13,579,049</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$119,699
Special	9,221
Vocational	2,279
Support Services:	
Pupils	1,633
Instructional Staff	11,865
Administration	9,178
Fiscal	225
Operation and Maintenance of Plant	17,462
Pupil Transportation	129,794
Central	692
Non-Instructional Services	10,938
Extracurricular Activities	19,822
Total Depreciation Expense	<u>\$332,808</u>

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

Note 11 - Risk Management

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 for the following insurance coverage.

Coverage provided by Indiana Insurance is as follows:

Buildings and Contents - replacement cost	\$32,996,607
---	--------------

Coverage provided by Ohio School Plan is as follows:

Automobile Liability	1,000,000
General School District Liability	
Per Occurrence	1,000,000
Total per Year	3,000,000
Excess Liability	1,000,000

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

For fiscal year 2003 the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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 participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 12 Defined Benefit Pension Plans

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP 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 salary and 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001 was \$700,293, \$491,597 and \$455,146, respectively; 82 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$6,140 made by the School District and \$19,153 made by plan members.

Note 12 - Defined Benefit Pension Plans (continued)

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$139,031, \$87,143, and \$59,770, respectively; 37 percent has been contributed for the fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

C. Social Security System

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

Note 13 - Postemployment Benefits

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$54,341.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

Note 13 - Postemployment Benefits (continued)

For SERS, coverage is made available to service retirees with ten or more 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.

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 was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$138,459 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 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 14 - Other Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred thirty days for certified employees and two hundred thirty-six days for classified employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of fifty-seven and one-half days for certified employees and fifty-nine days for classified employees.

B. Health Care Benefits

The School District offers life insurance and accidental death and dismemberment insurance to all employees through Medical Life Insurance Company. The School District offers employee medical/surgical benefits through United Health Care of Ohio. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is offered to all employees through Metlife.

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

Note 15 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
Jr. High Construction Bonds FY 1980 9.125%	\$200,000	\$0	\$100,000	\$100,000	\$100,000
School Facilities Construction and Improvement Bonds FY 1997 5.875%	2,335,000	0	70,000	2,265,000	75,000
Energy Conservation Loan FY 2002 4.850%	295,104	0	113,817	181,287	119,404
Total General Long-Term Obligations	2,830,104	0	283,817	2,546,287	294,404
Compensated Absences Payable	713,343	65,617	36,296	742,664	31,775
Total Governmental Activities Long-Term Obligations	<u>\$3,543,447</u>	<u>\$65,617</u>	<u>\$320,113</u>	<u>\$3,288,951</u>	<u>\$326,179</u>

Jr. High Construction Bonds - On May 1, 1980, the School District issued \$2,300,000 in voted general obligation bonds for improving and constructing the Jr. High School building and facilities. The bonds were issued for a twenty-four year period, with final maturity in fiscal year 2004. The bonds are being retired through the Bond Retirement debt service fund.

School Facilities Construction and Improvement Bonds - On September 1, 1996, the School District issued \$2,616,000 in voted general obligation bonds for constructing, renovating, and adding to buildings; furnishing and equipping such buildings; and improving School District sites. The bond issue included serial and term bonds, in the amount of \$891,000 and \$1,725,000, respectively. The bonds were issued for a twenty-three year period, with final maturity in fiscal year 2020. The bonds are being retired through the Bond Retirement debt service fund.

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

Note 15 - Long-Term Obligations (continued)

The bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2009	\$115,000
2010	125,000
2011	130,000
2012	140,000
2013	150,000
2014	160,000
2015	170,000
2016	180,000
2017	190,000
2018	205,000
2019	160,000

The bonds maturing after December 1, 2006, are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2007, at redemption prices equal to the following percentages of the principal amount redeemed plus accrued interest to the redemption date:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2007 through November 30, 2008	102 %
December 1, 2008 through November 30, 2009	101
December 1, 2009 and thereafter	100

Energy Conservation Loan - On September 18, 2001, the School District obtained a loan, in the amount of \$350,000, to provide energy conservation measures for the School District. The loan was obtained for a three year period, with final maturity in fiscal year 2005. The loan is being retired through the Building Improvement capital projects fund.

Compensated absences will be paid from the General Fund and Food Service special revenue fund.

The School District's overall debt margin was \$10,078,386 with an unvoted debt margin of \$125,818 at June 30, 2003.

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

Note 15 - Long-Term Obligations (continued)

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2003, were as follows:

<u>Fiscal Year Ending</u>	<u>General Obligation Bonds</u>		<u>Energy Conservation Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$175,000	\$137,415	\$119,404	\$7,362
2005	80,000	127,912	61,883	1,501
2006	85,000	122,653	0	0
2007	95,000	116,916	0	0
2008	205,000	215,128	0	0
2009-2013	660,000	414,775	0	0
2014-2018	905,000	186,385	0	0
2019	160,000	4,700	0	0
Totals	<u>\$2,365,000</u>	<u>\$1,325,884</u>	<u>\$181,287</u>	<u>\$8,863</u>

Note 16 - 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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2003, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2003.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2002	\$127,275	\$0	\$44,467
Current Year Set Aside Requirement	234,824	234,824	0
Qualifying Expenditures	(42,449)	(38,297)	0
Balance June 30, 2003	<u>\$319,650</u>	<u>\$196,527</u>	<u>\$44,467</u>

Note 17 - Interfund Transfers

During fiscal year 2003, the General Fund made transfers to other governmental funds, in the amount of \$184,000 to subsidize various programs in other funds.

Note 18 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2003, the School District paid \$44,082 to TRECA for various services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

B. Tri-Rivers Joint Vocational School

The Tri-Rivers Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education. The JVS operates under the direction of a Board consisting of one representative from each of the ten participating school districts' Board of Education. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from Terril Martin, who serves as Treasurer, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

C. Highland Community Joint Recreation Board

The School District, the villages of Chesterville, Marengo, and Sparta, and the townships of Bennington, Chester, and South Bloomfield participate in a Joint Recreation Board created under the provisions of Ohio Revised Code Sections 755.12 to 755.18. The Joint Recreation Board consists of one representative from each of the participants. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from Pat Davies, who serves as Treasurer, P.O. Box 278, Marengo, Ohio 43334.

D. North Central Ohio Special Education Regional Resource Center

The North Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a forty-seven member board including the superintendent from the forty-two participating educational entities, one representative from a non-public school, one representative from Knox County Educational Service Center, one representative from Ashland University, and two parents of children with disabilities. The degree of control exercised by any participating educational entity is limited to its representative on the Board. Financial information can be obtained from Patricia Lyons, Knox County Educational Service Center, 308 Martinsburg Road, Mt. Vernon, Ohio 43050.

Note 18 - Jointly Governed Organizations (continued)

E. North Central Regional Professional Development Center

The North Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Crawford, Huron, Knox, Marion, Morrow, Richland, Seneca, and Wyandot Counties. The organization was formed to create and sustain self-renewing learning communities to transform education in Ohio so that all learners can achieve their full potential. The Center is governed by a twenty-one member Board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Eileen Lemaster, Mid-Ohio Educational Service Center, 1495 West Longview Avenue, Suite 202, Mansfield, Ohio 44906.

Note 19 - Insurance Pools

A. Ohio School Plan

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

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

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as 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 GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 20 - Related Organization

The Selover Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by the Board of Trustees appointed by the Highland Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Selover Public Library, Anna Vukovich, Clerk/Treasurer, P.O. Box 25, Chesterville, Ohio 43317.

Note 21 - State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

Note 22 - Contingencies

A. Grants

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

B. Litigation

There are currently no matters in litigation with the School District as defendant.

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education.</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$69,777	\$0	\$69,777
National School Lunch Program	03/04-PU-02/03	10.555	138,432	0	138,432	0
Total U.S. Department of Agriculture - Nutrition Cluster			<u>138,432</u>	<u>69,777</u>	<u>138,432</u>	<u>69,777</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
Safe and Drug-Free Schools and Communities	YR1 B Q03	84.184	178,000	0	162,201	0
<i>Passed Through Ohio Department of Education.</i>						
Title I Grants to Local Educational Agencies	C1S1-2002/2003	84.010	153,528	0	130,804	0
Special Education Grants to States	6BSF-2002/2003	84.027	153,175	0	128,130	0
Safe and Drug-Free Schools and Communities State Grants	DRS1-2002/2003	84.186	7,592	0	7,592	0
Goals 2000 State and Local Education Systematic Improvement Grants	G2S2-2001	84.276	0	0	5,205	0
Eisenhower Professional Development State Grants	MSS1-2001/2002	84.281	671	0	3,189	0
21st Century Community Learning Centers	T1S1-2003	84.287	446,243	0	380,908	0
Innovative Educational Program Strategies	C2S1-2002	84.298	8,212	0	6,976	0
Technology Literacy Challenge Fund Grants	R5	84.318	1,788	0	2,499	0
Comprehensive School Reform Demonstration	RFS1-2002	84.332	75,000	0	76,891	0
Class Size Reduction	CRS1-2001/2002	84.340	6,973	0	11,797	0
Assistive Technology Infusion Project	ATS1/ATS3-2002	84.352A	48,809	0	48,809	0
Improving Teacher Quality State Grants	TRS1-2003	84.367	61,594	0	47,600	0
Total Passed Through Ohio Department of Education			<u>963,585</u>	<u>0</u>	<u>850,400</u>	<u>0</u>
Total U.S. Department of Education			1,141,585	0	1,012,601	0
Totals			<u>\$1,280,017</u>	<u>\$69,777</u>	<u>\$1,151,033</u>	<u>\$69,777</u>

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

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This 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.



Auditor of State Betty Montgomery

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

Board of Education
Highland Local School District
Morrow County
6506 State Route 229
P.O. Box 98
Sparta, Ohio 43350-0089

We have audited the basic financial statements of the Highland Local School District, Morrow County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted an immaterial instance of non-compliance that we have reported to the management of the District in a separate letter dated December 19, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 19, 2003.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

December 19, 2003



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

Board of Education
Highland Local School District
Morrow County
6506 State Route 229
P.O. Box 98
Sparta, Ohio 43350-0098

Compliance

We have audited the compliance of Highland Local School District, Morrow County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The 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 District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 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 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 District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
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

December 19, 2003

**HIGHLAND SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505**

JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(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):	21 st Century Community Learning Center– CFDA #84.287
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**HIGHLAND SCHOOL DISTRICT
MORROW 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

Finding Number	2003-001
-----------------------	----------

Ohio Rev. Code Section 5705.10 states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit balance in any fund indicates that the money from another fund or funds has been used to pay the obligations of the fund or funds that carry the deficit balance.

The District had several funds during the fiscal year that had negative fund balances indicating that money from one fund was used to cover the expenses of another fund. The following funds had significant negative fund balances in the District's accounting records at different points throughout the year:

Fund	Range of Negative Fund Balance
Capital Projects Fund – Building Energy Improvements	(\$1) - (\$58,041)
Enterprise – Food Service Fund	(\$12,455) - (\$102,791)
Special Revenue Fund – Title Idea –B	(\$8,997) - (\$17,943)
Special Revenue Fund – Title II	(\$4,533) - (\$9,067)
Special Revenue Fund – DOE RAHS	(\$56,384) – (\$134,926)
Special Revenue Fund – 21 st Century	(\$198,665) – (\$237,092)

We recommend that the Treasurer review cash fund balances of all funds on a periodic basis. If advances or transfers from the General Fund are needed to cover cash flow problems, the Treasurer should seek a board resolution to cover any cash shortfalls in a timely manner.

HIGHLAND SCHOOL DISTRICT
MORROW 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 (Continued)**

Finding Number	2003-002
-----------------------	----------

Appropriations Exceeding Estimated Resources

Ohio Rev. Code Section 5705.39 states in part that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditures as certified by the budget commission, or in case of appeal, by the board of tax appeals. As of June 30, 2003, appropriations exceeded estimated resources available for expenditures in the following funds:

Funds	Estimated Resources	Appropriations	Variance
003 Building Energy Imp.	\$5,342	\$128,000	(\$122,658)
006 Cafeteria Fund	\$489,899	\$526,800	(\$36,901)

The Treasurer should review the Amended Certificates of Estimated Resources and Supplemental Appropriation Measures throughout the year to ensure that the total appropriations from each fund do not exceed the total of the estimated resources available for expenditures.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY

SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A -133 §.315 (b)
JUNE 30, 2003

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10659-001	Negative Fund Balances	No	Not corrected; Carried forward as Finding 2003-001.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

HIGHLAND LOCAL SCHOOL DISTRICT

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 3, 2004**