



**Auditor of State  
Betty Montgomery**



**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

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**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 43350-0098

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, 2004, 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, (the District) as of June 30, 2004, and the respective changes in financial position and the 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 March 11, 2005 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.

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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

March 11, 2005

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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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, 2004. 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 2004 were as follows:

- In total, net assets for governmental activities increased \$709,420 which represents a 5 percent increase from fiscal year 2003; the change is not that significant.
- Expenses during fiscal 2004 were restricted to absolute essential functions of the School District. With the uncertainty of the State's current school funding priorities, the School District has guarded and saved wherever possible to avoid deficit spending. Major capital expenditures were limited to a single school bus purchase, resurfacing and remarking the high school track, and replacement of the Middle School gymnasium roof. Much of the technology equipment and improvements to the network infrastructure spending came from grants secured by the School District.
- In December 2003, the final payment was made on the 1980 Jr. High Construction bond issue of \$2,300,000. This maturity retired another .55 mills of bonded debt being collected from local property taxes.

**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.

**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 2004. 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.

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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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 financial transactions, the fund financial statements focus on the School District's most significant funds. The Highland Local School District has two major 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, 2004  
Unaudited

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**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2004 compared to fiscal year 2003:

Table 1  
Net Assets

	Governmental Activities	
	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$8,452,149	\$7,051,726
Capital Assets, Net	13,443,732	13,579,049
Total Assets	21,895,881	20,630,775
<u>Liabilities:</u>		
Current and Other Liabilities	4,640,511	3,848,923
Long-Term Liabilities	3,053,049	3,288,951
Total Liabilities	7,693,560	7,137,874
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	11,150,045	11,032,762
Restricted	2,701,295	2,272,012
Unrestricted	350,981	188,127
Total Net Assets	\$14,202,321	\$13,492,901

Total assets increased just over 6 percent from the prior fiscal year. All of this increase is reflected in current and other assets. Cash and cash equivalents increased over \$700,000 due to additional state foundation resources and taxes received in fiscal year 2004. Intergovernmental receivables also increased over \$124,000, various federal Title grants increased as well as the Comprehensive School Reform grant. The receivable for property taxes increased over \$477,000 due to increases in assessed valuation.

Current and other liabilities increased a sizable 21 percent, almost all of which is reflected as deferred revenue and resulting from the increases in both property taxes and intergovernmental receivables. The reductions in long-term liabilities reflect normal reductions due to debt retirement.

The increase in restricted net assets can be attributed to a larger amount of resources set aside for the acquisition of textbooks and other instructional materials as well as capital improvements. The increase in unrestricted net assets is the result of the increase in cash and cash equivalents.

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

Table 2 reflects the changes in net assets for fiscal year 2004 and 2003.

Table 2  
Change in Net Assets

	Governmental Activities	
	2004	2003
<u>Revenues:</u>		
Program Revenues		
Charges for Services and Sales	\$559,810	\$476,312
Operating Grants and Contributions	2,405,269	2,139,544
Capital Grants and Contributions	88,191	255,797
Total Program Revenues	<u>3,053,270</u>	<u>2,871,653</u>
General Revenues		
Property Taxes	2,891,618	2,929,382
Income Taxes	679,263	644,267
Grants and Entitlements	7,326,510	7,113,831
Interest	52,095	69,568
Gifts and Donations	3,303	3,861
Miscellaneous	238,410	158,154
Total General Revenues	<u>11,191,199</u>	<u>10,919,063</u>
Total Revenues	<u>14,244,469</u>	<u>13,790,716</u>
<u>Expenses:</u>		
Instruction:		
Regular	5,411,123	5,136,071
Special	1,501,278	1,487,611
Vocational	47,519	63,207
Support Services:		
Pupils	651,777	612,979
Instructional Staff	1,369,045	1,186,575
Board of Education	108,014	127,466
Administration	1,009,153	1,053,168
Fiscal	324,113	270,542
Operation and Maintenance of Plant	1,000,352	1,170,804
Pupil Transportation	995,490	1,036,044
Central	2,748	8,151
Non-Instructional Services	682,186	619,881
Extracurricular Activities	286,209	311,349
Interest and Fiscal Charges	146,042	163,532
Total Expenses	<u>13,535,049</u>	<u>13,247,380</u>
Increase in Net Assets	<u>\$709,420</u>	<u>\$543,336</u>

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
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 2004, much of the increase in program related intergovernmental revenues was due to the 21<sup>st</sup> Century grant, Middle School Comprehensive School Reform grant, and increases in federal Title grants. A review of the above table reflects that overall revenues were quite comparable to the prior fiscal year with a modest 3 percent increase.

Program expenses for instruction represent just over 51 percent of all governmental activity expenses. While combined with the support services related to instruction such as pupils, instructional staff, pupil transportation, and operation and maintenance, over 81 percent of all School District expenses are related to the primary functions of delivering education and maintaining facilities. Once again, a comparison to the prior year demonstrates that fiscal year 2004 expenses were very similar to fiscal year 2003 expenses with just a 2 percent increase.

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	
	2004	2003	2004	2003
<b>Instruction:</b>				
Regular	\$5,411,123	\$5,136,071	\$5,129,512	\$4,866,170
Special	1,501,278	1,487,611	356,249	526,376
Vocational	47,519	63,207	(708)	5,245
<b>Support Services:</b>				
Pupils	651,777	612,979	394,368	324,376
Instructional Staff	1,369,045	1,186,575	1,369,045	1,186,575
Board of Education	108,014	127,466	108,014	127,466
Administration	1,009,153	1,053,168	1,009,153	1,053,168
Fiscal	324,113	270,542	324,113	249,052
Operation and Maintenance of Plant	1,000,352	1,170,804	985,352	1,153,304
Pupil Transportation	995,490	1,036,044	962,449	919,691
Central	2,748	8,151	2,748	8,151
Non-Instructional Services	682,186	619,881	(506,097)	(425,873)
Extracurricular Activities	286,209	311,349	201,539	218,494
Interest and Fiscal Charges	146,042	163,532	146,042	163,532
<b>Total Expenses</b>	<u>\$13,535,049</u>	<u>\$13,247,380</u>	<u>\$10,481,779</u>	<u>\$10,375,727</u>

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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The School District's dependence on unrestricted state entitlements (State Foundation) and local taxes for governmental activities is apparent. Nearly 79 percent of instruction activities are supported through unrestricted state funding and local tax revenues. Overall, general revenues have provided in excess of 77 percent of the support for governmental activities for the past three fiscal years.

Several of the School District's programs receive substantial support through program revenues. For instance, special instruction received 73 percent of its funding through operating grants restricted to special education purposes. Vocational instruction was fully funded through program revenues in fiscal year 2004. In fact, the combination of operating grants and charges for services were slightly in excess of the program costs. The pupils support services program received 39 percent of its resources from operating grants, primarily the 21<sup>st</sup> Century grant which provides for an after-school program. Non-instructional services had program revenues in excess of costs by \$506,000 for fiscal year 2004. These program revenues are made up of cafeteria sales, state and federal subsidies, and donated commodities for food service.

### **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 \$14,215,150 and expenditures of \$13,704,876 resulting in an increase of \$510,274. This increase was driven mainly by the General Fund which had revenues in excess of expenditures of over \$526,000 resulting from higher than expected State Foundation amounts and property tax payments.

### **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 fiscal year 2004, the School District amended its General Fund budget as needed. The changes from original to final budget amounts for revenues were very minor and from the final budget to actual revenues received were less than 1 percent.

The changes from the original to final budget amounts for expenditures were also very minor. The variance from the final budget to actual expenditures of just less than 5 percent was primarily due to overestimated wages and efficiency savings in pupil transportation and maintenance operations.

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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**Capital Assets and Debt Administration**

Capital Assets

At June 30, 2004, the School District had \$13,443,732 invested in capital assets (net of accumulated depreciation), a 1 percent decrease from the prior fiscal year. This decrease is the result of accumulated depreciation expense in excess of capital asset additions. The major additions for the fiscal year were the replacement of the Middle School gym roof, resurfacing the track at the High School, a new school bus, a new electronic display sign in front of the High School, six new copiers, and some other computer and related equipment. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At fiscal year end, the School District had general obligation bonds outstanding, in the amount of \$2,190,000, for school construction. These bonds won't be fully retired until fiscal year 2020. The School District also had an outstanding energy conservation loan, with an outstanding balance of \$61,883. This loan will be fully retired in fiscal year 2005. In addition, the School District had outstanding capital leases for equipment, in the amount of \$41,804. In addition to this debt, the School District's long-term obligations include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 15 to the basic financial statements.

**Current Issues**

The Highland Local School District is located in southern Morrow County. The area is primarily rural farming and residential and a short commute to the Columbus area. The School District's enrollment has been steady, serving approximately 1765 students.

In fiscal year 2000, the School District received approximately 73 percent of its operating revenues through the State's basic aide "foundation" formula. The State's basic aide formula takes into consideration the assessed valuation of property within the School District. As property values increase, the State's share of basic aide funding is decreased. Currently the State's share of basic aide funding to the School District is 63 percent. Since 1998, local property valuations have nearly doubled from \$78 million to \$141 million in 2003. This increase represents a dramatic shift in revenues to the School District of less state funding (state's share) and more dependence on local property tax collections. Highland maintains one of the lowest gross property tax millage rates in the state of 22.85 mills, which includes 2.2 mills for bond retirement.

Although fiscal year 2004 reflected a positive financial year overall, the near future trends do not fare as well. Revenue growth is expected to lag behind ordinary expenditure levels for the next two to three years. The State's remedy to fixing the school funding formula appears to fall short of a complete overhaul absent an economic recovery. In the current climate of 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, especially including health benefits, continue to rise at a rate exceeding recent revenue growth.

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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The Highland Local School District exists for its students. The natural challenge we face is in providing the highest level of educational opportunities for our students given the resources made available. The increasing mandates put in place by the federal *No Child Left Behind Act* presents many challenges to our small district and will require future additional resources to implement the program. The State must continue to invest in education first if it hopes to improve the economy and attract businesses.

**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, 6506 State Route 229, P.O. Box 98, Sparta, Ohio 43350.

Highland Local School District  
Statement of Net Assets  
June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$4,207,187
Accounts Receivable	24,759
Accrued Interest Receivable	6,362
Intergovernmental Receivable	265,186
Income Taxes Receivable	300,546
Prepaid Items	122,491
Inventory Held for Resale	23,917
Materials and Supplies Inventory	74,734
Property Taxes Receivable	3,426,967
Nondepreciable Capital Assets	176,605
Depreciable Capital Assets, Net	13,267,127
Total Assets	<u>21,895,881</u>
 <u>Liabilities:</u>	
Accounts Payable	57,901
Contracts Payable	5,213
Accrued Wages and Benefits Payable	1,388,709
Intergovernmental Payable	458,475
Retainage Payable	4,548
Matured Compensated Absences Payable	37,594
Deferred Revenue	2,676,949
Accrued Interest Payable	11,122
Long-Term Liabilities:	
Due Within One Year	215,306
Due in More Than One Year	2,837,743
Total Liabilities	<u>7,693,560</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	11,150,045
Restricted For:	
Set Asides	829,624
Debt Service	1,195,847
Capital Projects	94,697
Other Purposes	581,127
Unrestricted	350,981
Total Net Assets	<u><u>\$14,202,321</u></u>

See Accompanying Notes to Basic Financial Statements

Highland Local School District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2004

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$5,411,123	\$40,470	\$200,991	\$40,150
Special	1,501,278	51,362	1,093,667	0
Vocational	47,519	3,030	45,197	0
Support Services:				
Pupils	651,777	0	257,409	0
Instructional Staff	1,369,045	0	0	0
Board of Education	108,014	0	0	0
Administration	1,009,153	0	0	0
Fiscal	324,113	0	0	0
Operation and Maintenance of Plant	1,000,352	0	0	15,000
Pupil Transportation	995,490	0	0	33,041
Central	2,748	0	0	0
Non-Instructional Services	682,186	380,278	808,005	0
Extracurricular Activities	286,209	84,670	0	0
Interest and Fiscal Charges	146,042	0	0	0
Total Governmental Activities	<u>\$13,535,049</u>	<u>\$559,810</u>	<u>\$2,405,269</u>	<u>\$88,191</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  
Gifts and Donations  
Miscellaneous  
Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year  
Net Assets at End of Year

See Accompanying Notes to the Basic Financial Statements



Net (Expense) Revenue  
and Change in Net Assets

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Governmental  
Activities

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(\$5,129,512)  
(356,249)  
708

(394,368)  
(1,369,045)  
(108,014)  
(1,009,153)  
(324,113)  
(985,352)  
(962,449)  
(2,748)  
506,097  
(201,539)  
(146,042)  

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(10,481,779)

2,534,915  
19,475  
337,228  
679,263  
7,326,510  
52,095  
3,303  
238,410

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11,191,199

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709,420

13,492,901  

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\$14,202,321

Highland Local School District  
Balance Sheet  
Governmental Funds  
June 30, 2004

	General	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,538,203	\$1,121,728	\$705,752	\$3,365,683
Accounts Receivable	17,830	0	6,929	24,759
Accrued Interest Receivable	6,362	0	0	6,362
Intergovernmental Receivable	9,854	0	255,332	265,186
Income Taxes Receivable	300,546	0	0	300,546
Prepaid Items	115,531	0	6,960	122,491
Inventory Held for Resale	0	0	23,917	23,917
Materials and Supplies Inventory	70,404	0	4,330	74,734
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	841,504	0	0	841,504
Property Taxes Receivable	3,018,178	386,679	22,110	3,426,967
<b>Total Assets</b>	<u>\$5,918,412</u>	<u>\$1,508,407</u>	<u>\$1,025,330</u>	<u>\$8,452,149</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$34,602	\$0	\$23,299	\$57,901
Contracts Payable	5,213	0	0	5,213
Accrued Wages and Benefits Payable	1,271,816	0	116,893	1,388,709
Intergovernmental Payable	229,960	0	109,164	339,124
Retainage Payable	4,548	0	0	4,548
Matured Compensated Absences Payable	37,594	0	0	37,594
Deferred Revenue	2,596,638	326,102	144,861	3,067,601
<b>Total Liabilities</b>	<u>4,180,371</u>	<u>326,102</u>	<u>394,217</u>	<u>4,900,690</u>
<u>Fund Balances:</u>				
Reserved for Property Taxes	447,663	57,532	3,278	508,473
Reserved for Textbooks	444,055	0	0	444,055
Reserved for Capital Improvements	341,102	0	0	341,102
Reserved for Budget Stabilization	44,467	0	0	44,467
Reserved for Bus Purchase	11,880	0	0	11,880
Reserved for Encumbrances	19,906	0	222,827	242,733
<u>Unreserved, Reported in:</u>				
General Fund	428,968	0	0	428,968
Special Revenue Funds	0	0	258,864	258,864
Debt Service Fund	0	1,124,773	0	1,124,773
Capital Projects Funds	0	0	146,144	146,144
<b>Total Fund Balances</b>	<u>1,738,041</u>	<u>1,182,305</u>	<u>631,113</u>	<u>3,551,459</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$5,918,412</u>	<u>\$1,508,407</u>	<u>\$1,025,330</u>	<u>\$8,452,149</u>

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, 2004

Total Governmental Fund Balances \$3,551,459

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. 13,443,732

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

Accounts Receivable	8,102	
Accrued Interest Receivable	689	
Intergovernmental Receivable	120,018	
Income Taxes Receivable	46,774	
Property Taxes Receivable	215,069	
		390,652

Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds. (119,351)

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

Accrued Interest Payable	(11,122)	
General Obligation Bonds Payable	(2,190,000)	
Energy Conservation Loans Payable	(61,883)	
Compensated Absences Payable	(759,362)	
Capital Leases Payable	(41,804)	
		(3,064,171)

Net Assets of Governmental Activities \$14,202,321

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, 2004

	General	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$2,516,781	\$339,480	\$19,559	\$2,875,820
Income Taxes	668,478	0	0	668,478
Intergovernmental	7,943,346	46,323	1,758,260	9,747,929
Interest	51,406	0	0	51,406
Tuition and Fees	46,009	0	40,854	86,863
Extracurricular Activities	0	0	84,750	84,750
Charges for Services	0	0	380,239	380,239
Gifts and Donations	0	0	34,071	34,071
Miscellaneous	171,036	0	114,558	285,594
Total Revenues	<u>11,397,056</u>	<u>385,803</u>	<u>2,432,291</u>	<u>14,215,150</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	5,121,853	0	164,285	5,286,138
Special	1,309,020	0	176,285	1,485,305
Vocational	43,770	0	0	43,770
Support Services:				
Pupils	410,445	0	237,481	647,926
Instructional Staff	485,333	0	866,725	1,352,058
Board of Education	108,014	0	0	108,014
Administration	886,724	0	106,177	992,901
Fiscal	290,661	10,817	21,847	323,325
Operation and Maintenance of Plant	1,096,321	0	13,742	1,110,063
Pupil Transportation	921,488	0	0	921,488
Central	0	0	2,056	2,056
Non-Instructional Services	0	0	670,126	670,126
Extracurricular Activities	188,342	0	85,463	273,805
Capital Outlay	0	0	40,066	40,066
Debt Service:				
Principal Retirement	6,128	175,000	119,404	300,532
Interest and Fiscal Charges	2,524	137,416	7,363	147,303
Total Expenditures	<u>10,870,623</u>	<u>323,233</u>	<u>2,511,020</u>	<u>13,704,876</u>
Excess of Revenues Over (Under) Expenditures	<u>526,433</u>	<u>62,570</u>	<u>(78,729)</u>	<u>510,274</u>
<u>Other Financing Sources (Uses):</u>				
Inception of Capital Lease	47,932	0	0	47,932
Transfers In	0	0	187,574	187,574
Transfers Out	(187,574)	0	0	(187,574)
Total Other Financing Sources (Uses)	<u>(139,642)</u>	<u>0</u>	<u>187,574</u>	<u>47,932</u>
Changes in Fund Balances	386,791	62,570	108,845	558,206
Fund Balances at Beginning of Year	1,351,250	1,119,735	522,268	2,993,253
Fund Balances at End of Year	<u>\$1,738,041</u>	<u>\$1,182,305</u>	<u>\$631,113</u>	<u>\$3,551,459</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, 2004

Changes in Fund Balances - Total Governmental Funds \$558,206

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	212,801	
Depreciation	(348,118)	
	(135,317)	(135,317)

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

Property Taxes	15,798	
Income Taxes	10,785	
Intergovernmental	40,339	
Interest	689	
Tuition and Fees	(1,664)	
Extracurricular Activities	(80)	
Charges for Services	39	
Miscellaneous	(36,587)	
	29,319	29,319

Repayment of principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 300,532

Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the statement of net assets. 1,261

The inception of a capital lease is reported as an other financing source in governmental funds, but increases long-term liabilities on the statement of net assets. (47,932)

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	20,049	
Compensated Absences Payable	(16,698)	
	3,351	3,351

Change in Net Assets of Governmental Activities \$709,420

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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$2,463,830	\$2,563,830	\$2,655,766	\$91,936
Income Taxes	684,000	648,000	651,055	3,055
Intergovernmental	7,958,670	7,844,170	7,943,211	99,041
Interest	5,000	50,000	54,889	4,889
Miscellaneous	29,000	39,000	43,168	4,168
Total Revenues	<u>11,140,500</u>	<u>11,145,000</u>	<u>11,348,089</u>	<u>203,089</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	5,256,281	5,264,281	5,073,033	191,248
Special	1,342,353	1,342,353	1,297,396	44,957
Vocational	54,350	54,350	47,743	6,607
Support Services:				
Pupils	449,600	449,600	414,243	35,357
Instructional Staff	476,283	476,283	490,374	(14,091)
Board of Education	145,500	145,500	124,751	20,749
Administration	902,478	902,478	900,574	1,904
Fiscal	291,750	291,750	288,789	2,961
Operation and Maintenance of Plant	1,148,787	1,148,787	1,064,366	84,421
Pupil Transportation	1,041,250	1,041,250	935,057	106,193
Extracurricular Activities	203,800	203,800	194,242	9,558
Capital Outlay	20,000	20,000	0	20,000
Total Expenditures	<u>11,332,432</u>	<u>11,340,432</u>	<u>10,830,568</u>	<u>509,864</u>
Excess of Revenues Over (Under) Expenditures	<u>(191,932)</u>	<u>(195,432)</u>	<u>517,521</u>	<u>712,953</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	40,000	125,000	168,339	43,339
Other Financing Uses	(81,000)	(17,426)	0	17,426
Transfers Out	(144,000)	(187,574)	(187,574)	0
Total Other Financing Sources (Uses)	<u>(185,000)</u>	<u>(80,000)</u>	<u>(19,235)</u>	<u>60,765</u>
Changes in Fund Balance	(376,932)	(275,432)	498,286	773,718
Fund Balance at Beginning of Year	1,808,839	1,808,839	1,808,839	0
Prior Year Encumbrances Appropriated	36,383	36,383	36,383	0
Fund Balance at End of Year	<u>\$1,468,290</u>	<u>\$1,569,790</u>	<u>\$2,343,508</u>	<u>\$773,718</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2004

Assets:

Equity in Pooled Cash and Cash Equivalent:	<u><u>\$28,126</u></u>
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Liabilities:

Undistributed Assets	4,657
Due to Students	<u>23,469</u>
Total Liabilities	<u><u>\$28,126</u></u>

See Accompanying Notes to the Basic Financial Statements

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**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 321st largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by eighty-five classified employees, one hundred nineteen certified teaching personnel, and thirteen administrative employees who provide services to 1,765 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 19, 20, and 21 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.

**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 and energy conservation loans.

The other governmental funds of the School District account for grants and other resources whose use is 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 2004. 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 and deductions.

**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 full 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, 2004, but which were levied to finance fiscal year 2005 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".

During fiscal year 2004, 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, 2004.

**Note 2 - Summary of Significant Accounting Policies** (continued)

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2004 was \$51,406, which includes \$21,168 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, 2004, 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 generally 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, 2004

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**Note 2 - Summary of Significant Accounting Policies** (continued)

All capital assets, except land and construction in progress, 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	10 - 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 paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

**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 resources restricted 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.



Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 3 - Change in Accounting Principle**

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the School District's financial statements.

**Note 4 - Compliance**

For the fiscal year ended June 30, 2004, the Food Service and Education Management Information System special revenue funds had appropriations in excess of estimated resources plus available balances, in the amount of \$17,246 and \$686, respectively. The Treasurer will review budgeted resources to ensure they are sufficient for amounts appropriated.

**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).

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

Change in Fund Balance

GAAP Basis	\$386,791
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	875,504
Accrued FY 2004, Not Yet Received in Cash	(756,132)
	(continued)

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 5 - Budgetary Basis of Accounting** (continued)

Change in Fund Balance (continued)	
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(\$1,518,306)
Accrued FY 2004, Not Yet Paid in Cash	1,583,733
Prepaid Items	(30,094)
Materials and Supplies Inventory	(7,011)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(36,199)
Budget Basis	<u>\$498,286</u>

**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.

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;

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Notes to the Basic Financial Statements  
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**Note 6 - Deposits and Investments** (continued)

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.

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 \$2,496,506 and the bank balance was \$2,757,658. Of the bank balance, \$130,551 was covered by federal depository insurance and \$2,627,107 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.

Highland Local School District  
Notes to the Basic Financial Statements  
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**Note 6 - Deposits and Investments** (continued)

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, 2004, the fair value of funds on deposit with STAR Ohio was \$1,738,007.

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	\$4,235,313	\$0
Cash on Hand	(800)	0
Investments:		
STAR Ohio	(1,738,007)	1,738,007
GASB Statement No. 3	\$2,496,506	\$1,738,007

**Note 7 - Receivables**

Receivables at June 30, 2004, 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.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 7 - Receivables** (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Tuition	\$9,719
Reimbursement	135
Total General Fund	9,854
Other Governmental Funds	
Food Service	25,241
Athletic	335
Title Idea	58,000
Title I	68,000
CSR Grant	16,191
Title II-A	10,500
Title II-D Tech	2,788
DOE RAHS Grant	74,277
Total Other Governmental Funds	255,332
Total Intergovernmental Receivables	\$265,186

**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, 2004

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**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 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, 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 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, 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 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 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 2004.

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, 2004, are available to finance fiscal year 2004 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, 2004, 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, 2004, was \$447,663 in the General Fund, \$3,278 in the Classroom Facilities special revenue fund, and \$57,532 in the Bond Retirement debt service fund. 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 late tax settlement made by the counties for fiscal year 2004 was \$23,271 in the General Fund, \$160 in the Classroom Facilities special revenue fund, and \$3,045 in the Bond Retirement debt service fund. For fiscal year 2003, these amounts were \$24,157 in the General Fund, \$200 in the Classroom Facilities special revenue fund, and \$3,805 in the Bond Retirement debt service fund.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 9 - Property Taxes** (continued)

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

The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$107,973,730	85.82%	\$122,171,830	86.41%
Industrial/Commercial	9,316,370	7.40	10,393,110	7.35
Public Utility	4,662,890	3.71	5,030,410	3.56
Tangible Personal	3,865,350	3.07	3,783,750	2.68
Total Assessed Value	<u>\$125,818,340</u>	<u>100.00%</u>	<u>\$141,379,100</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$22.85		\$22.85	

**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$135,673	\$0	\$0	\$135,673
Construction in Progress	0	40,932	0	40,932
Total Nondepreciable Capital Assets	<u>135,673</u>	<u>40,932</u>	<u>0</u>	<u>176,605</u>
Depreciable Capital Assets				
Land Improvements	231,548	17,500	0	249,048
Buildings and Building Improvements	13,299,136	0	0	13,299,136
Furniture, Fixtures, and Equipment	771,827	91,369	0	863,196
Vehicles	1,499,500	63,000	0	1,562,500
Total Depreciable Capital Assets	<u>15,802,011</u>	<u>171,869</u>	<u>0</u>	<u>15,973,880</u>

(continued)

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 10 - Capital Assets** (continued)

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Less Accumulated Depreciation				
Land Improvements	(\$12,569)	(\$9,323)	\$0	(\$21,892)
Buildings and Building Improvements	(1,100,515)	(160,197)	0	(1,260,712)
Furniture, Fixtures, and Equipment	(363,639)	(60,221)	0	(423,860)
Vehicles	(881,912)	(118,377)	0	(1,000,289)
Total Accumulated Depreciation	<u>(2,358,635)</u>	<u>(348,118)</u>	<u>0</u>	<u>(2,706,753)</u>
Depreciable Capital Assets, Net	<u>13,443,376</u>	<u>(176,249)</u>	<u>0</u>	<u>13,267,127</u>
Governmental Activities Capital Assets, Net	<u>\$13,579,049</u>	<u>(\$135,317)</u>	<u>\$0</u>	<u>\$13,443,732</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$128,455
Special	9,221
Vocational	2,280
Support Services:	
Pupils	1,633
Instructional Staff	11,865
Administration	8,710
Fiscal	225
Operation and Maintenance of Plant	20,149
Pupil Transportation	134,436
Central	692
Non-Instructional Services	10,648
Extracurricular Activities	19,804
Total Depreciation Expense	<u>\$348,118</u>



Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**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 2004 the School District contracted for the following insurance coverage.

Coverage provided by Mid-American Fire and Casualty is as follows:

Buildings and Contents - replacement cost	\$33,743,871
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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 2004 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 2004, 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, 2004, plan members were required to contribute 10 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, 2004, 2003, and 2002 was \$725,367, \$700,293 and \$491,597, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$6,481 made by the School District and \$19,351 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, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 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, 2004, 2003, and 2002 was \$156,019, \$139,031, and \$87,143, respectively; 42 percent has been contributed for the fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

**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, 2004, 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.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All 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 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$56,296.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 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. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$110,585 for fiscal year 2004.

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, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 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-two 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 forty-two days for all employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of sixty and one-half days for all 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.

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**Note 15 - Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
Jr. High Construction Bonds FY 1980 9.125%	\$100,000	\$0	\$100,000	\$0	\$0
School Facilities Construction and Improvement Bonds FY 1997 5.875%	2,265,000	0	75,000	2,190,000	80,000
Energy Conservation Loan FY 2002 4.850%	181,287	0	119,404	61,883	61,883
Total General Long-Term Obligations	2,546,287	0	294,404	2,251,883	141,883
Compensated Absences Payable	742,664	28,556	11,858	759,362	64,715
Capital Leases Payable	0	47,932	6,128	41,804	8,708
Total Governmental Activities Long-Term Obligations	\$3,288,951	\$76,488	\$312,390	\$3,053,049	\$215,306

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 fully retired in fiscal year 2004.

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.

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**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 the Food Service special revenue fund.

Capital lease obligations will be paid from the fund that maintains custody of the related asset.

The School District's overall debt margin was \$11,716,424 with an unvoted debt margin of \$141,379 at June 30, 2004.

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**Note 15 - Long-Term Obligations** (continued)

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2004, 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>
2005	\$80,000	\$127,912	\$61,883	\$1,501
2006	85,000	122,653	0	0
2007	95,000	116,916	0	0
2008	100,000	110,700	0	0
2009	105,000	104,428	0	0
2010-2014	660,000	414,775	0	0
2015-2019	905,000	186,385	0	0
2020	160,000	4,700	0	0
Totals	<u>\$2,190,000</u>	<u>\$1,188,469</u>	<u>\$61,883</u>	<u>\$1,501</u>

**Note 16 - Capital Leases - Lessee Disclosure**

The School District has entered into capitalized leases for copiers. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Operation and Maintenance of Plant" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2004 were \$6,128.

	<u>Governmental Activities</u>
Copiers	\$47,932
Less Accumulated Depreciation	(6,391)
Carrying Value, December 31, 2004	<u>\$41,541</u>

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For the Fiscal Year Ended June 30, 2004

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**Note 16 - Capital Leases - Lessee Disclosure** (continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Year	Governmental Activities	
	Principal	Interest
2005	\$8,708	\$2,828
2006	9,365	2,171
2007	10,070	1,466
2008	10,829	707
2009	2,832	0
Total	\$41,804	\$7,172

**Note 17 - 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, 2004, 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 2004.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2003	\$319,650	\$196,527	\$44,467
Current Year Set Aside Requirement	252,233	252,233	0
Qualifying Expenditures	(127,828)	(107,658)	0
Balance June 30, 2004	\$444,055	\$341,102	\$44,467

**Note 18 - Interfund Transfers**

During fiscal year 2004, the General Fund made transfers to other governmental funds, in the amount of \$187,574 to subsidize various programs in other funds.



**Note 19 - 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 2004, the School District paid \$32,035 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 19 - 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 20 - 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 21 - 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 22 - State School Funding Decision**

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

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

The 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 23 - 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, 2004.

**B. Litigation**

The School District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material adverse effect, if any, on the financial condition of the School District.

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HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$72,104	\$0	\$72,104
National School Lunch Program	03/04-PU-02/03	10.555	156,485	0	156,485	0
Total U.S. Department of Agriculture - Nutrition Cluster			<b>156,485</b>	<b>72,104</b>	<b>156,485</b>	<b>72,104</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
Safe and Drug-Free Schools and Communities	YR1 B Q03	84.184	205,942	0	194,391	0
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2004	84.010	167,047	0	175,183	0
Special Education Grants to States	6BSF-2003/2004	84.027	153,618	0	175,821	0
Safe and Drug-Free Schools and Communities State Grants	DRS1-2004	84.186	7,352	0	7,352	0
21st Century Community Learning Centers	T1S1-2004	84.287	499,232	0	449,839	0
Innovative Educational Program Strategies	C2S1-2003/2004	84.298	18,482	0	18,974	0
Comprehensive School Reform Demonstration	RFS1-2003	84.332	55,623	0	57,067	0
Improving Teacher Quality State Grants	TRS1-2004	84.367	64,871	0	72,031	0
Total Passed Through Ohio Department of Education			966,225	0	956,267	0
Total U.S. Department of Education			<b>1,172,167</b>	<b>0</b>	<b>1,150,658</b>	<b>0</b>
<b>Totals</b>			<b>\$1,328,652</b>	<b>\$72,104</b>	<b>\$1,307,143</b>	<b>\$72,104</b>

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, 2004**

**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 43350-0098

We have audited the 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, 2004, and have issued our report thereon dated March 11, 2005. 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 tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that do not require inclusion in this report that we have reported to the management of the District in a separate letter dated March 11, 2005.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 11, 2005.

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

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

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

**Betty Montgomery**  
Auditor of State

March 11, 2005





## **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, 2004. 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, 2004.

#### **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.

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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. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 11, 2005.

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

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

**Betty Montgomery**  
Auditor of State

March 11, 2005

**HIGHLAND SCHOOL DISTRICT  
MORROW COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs= Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under ' .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	21 <sup>st</sup> Century Community Learning Center– CFDA #84.287
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2004

<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; <b><i>Explain:</i></b>
2003-001	Negative Fund Balances	No	Partially Corrected. This is reported in the management letter for fiscal year 2004.
2003-002	Appropriations Exceeding Estimated Resources	No	Partially Corrected. This is reported in the management letter for fiscal year 2004.



**Auditor of State  
Betty Montgomery**

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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  
APRIL 14, 2005**