



**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Highland Local School District
Morrow County
6506 State Route 229
PO Box 98
Sparta, Ohio 43350-0098

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Highland Local School District, Morrow County, Ohio (the District), as of and for the year ended June 30, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 the Highland Local School District, Morrow County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof 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 January 9, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures provides additional information and is not a required part of the basic financial statements. We subjected the schedule of federal awards receipts and expenditures 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.



Betty Montgomery
Auditor of State

January 9, 2006

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Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of Highland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. 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

Highlights for fiscal year 2005 were as follows:

- Net assets increased \$826,190 during fiscal year 2005. This represents a 6 percent increase.
- Major capital expenditures for the fiscal year consisted of the purchase of two seventy-one passenger buses, renovation of the football field bleachers and a new scoreboard, and improved security systems at select buildings. Continued technology equipment replacement included fifty new laptop computers at the Middle School and forty-five new desktop units for computer labs for the elementary schools.
- In December 2004, a final payment was made on the energy conservation loan. The remaining debt obligation is now limited to the Ohio School Facilities Construction and Improvement Bonds, which provided for additions to the High School and West Elementary and the new Central Elementary. The voted levy for this issue currently collects 2.2 mills from local property taxes for repayment.
- A two-year negotiated contract agreement was reached with the teaching staff in May 2005. This agreement included wage increases of 3 percent each year and language on class size and teacher evaluations. The contract renewal with the classified staff is currently in negotiations. This contract originally expired on June 30, 2005.

Using the Basic Financial Statements

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

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

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

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its 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, 2005
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2005 and fiscal year 2004:

Table 1
Net Assets

	Governmental Activities	
	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$9,322,831	\$8,452,149
Capital Assets, Net	13,260,467	13,443,732
Total Assets	22,583,298	21,895,881
<u>Liabilities:</u>		
Current and Other Liabilities	4,585,224	4,640,511
Long-Term Liabilities	2,969,563	3,053,049
Total Liabilities	7,554,787	7,693,560
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	11,117,371	11,150,045
Restricted	3,084,404	2,701,295
Unrestricted	826,736	350,981
Total Net Assets	\$15,028,511	\$14,202,321

During fiscal year 2005, total assets increased just 3 percent from the prior fiscal year; however, there were two notable changes in current and other assets. Cash and cash equivalents increased nearly \$694,000 as a result of increased State foundation payments, improved interest earnings, and better than expected income tax revenues. Intergovernmental receivables also increased over \$156,000 due to larger federal title grant allocations.

Total liabilities decreased slightly (\$138,773) reflecting normal reductions in long-term liabilities and the final payment on the energy conservation note.

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 for capital improvements, along with the larger grant resources mentioned above. The increase in unrestricted net assets is the result of the increase in cash and cash equivalents from unrestricted sources.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2 reflects the changes in net assets for fiscal year 2005 and fiscal year 2004.

Table 2
Change in Net Assets

	Governmental Activities	
	2005	2004
<u>Revenues:</u>		
Program Revenues		
Charges for Services	\$556,081	\$559,810
Operating Grants, Contributions, and Interest	2,522,764	2,405,269
Capital Grants and Contributions	53,301	88,191
Total Program Revenues	3,132,146	3,053,270
General Revenues		
Property Taxes Levied for General Purposes	2,704,685	2,534,915
Property Taxes Levied for Classroom Facilities Purposes	20,605	19,475
Property Taxes Levied for Debt Service Purposes	346,958	337,228
Income Taxes Levied for General Purposes	717,187	679,263
Grants and Entitlements	7,645,273	7,326,510
Interest	99,189	52,095
Gifts and Donations	6,197	3,303
Miscellaneous	278,452	238,410
Total General Revenues	11,818,546	11,191,199
Total Revenues	14,950,692	14,244,469
<u>Expenses:</u>		
Instruction:		
Regular	5,622,845	5,411,123
Special	1,659,611	1,501,278
Vocational	55,009	47,519
Support Services:		
Pupils	717,682	651,777
Instructional Staff	1,317,121	1,369,045
Board of Education	150,950	108,014
Administration	1,039,162	1,009,153
Fiscal	323,275	324,113
Operation and Maintenance of Plant	1,054,761	1,000,352
Pupil Transportation	1,096,963	995,490
Central	5,250	2,748
Non-Instructional Services	658,302	682,186
Extracurricular Activities	292,005	286,209
Interest and Fiscal Charges	131,566	146,042
Total Expenses	14,124,502	13,535,049
Increase in Net Assets	\$826,190	\$709,420

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

As can be seen above, with a 5 percent increase in revenues and a 4 percent increase in expenses, there was little change from the prior fiscal year. The percentage of program revenues and general revenues to total revenues remained identical to fiscal year 2004. Program revenues represent charges for services such as food service operations, and extracurricular activities such as athletic event admissions. The operating grants and contributions revenues are restricted intergovernmental resources which are directly associated with certain governmental activities including the food service subsidies and special education funding. The slight increase in operating grants and contributions was due to an increase in federal title grant funding.

Program expenses for instruction represented 52 percent of total expenses. Combined with the support services related to instruction such as instructional staff, operation and maintenance, and pupil transportation, over 76 percent of all School District expenses are relating to the primary function of delivering quality education and maintaining facilities. While program expenses only increased 4 percent from the previous fiscal year, the largest changes were related to regular instruction and pupil transportation. The increase in regular instruction represents a combination of normal annual wage increases and higher healthcare insurance costs. The pupil transportation costs increases came in the form of higher fuel costs, added routes, and having to add an additional bus mechanic for much of the period.

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, 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	
	2005	2004	2005	2004
Instruction:				
Regular	\$5,622,845	\$5,411,123	\$5,334,529	\$5,129,512
Special	1,659,611	1,501,278	421,678	356,249
Vocational	55,009	47,519	33,930	(708)
Support Services:				
Pupils	717,682	651,777	438,970	394,368
Instructional Staff	1,317,121	1,369,045	1,317,121	1,369,045
Board of Education	150,950	108,014	150,950	108,014
Administration	1,039,162	1,009,153	1,039,162	1,009,153
Fiscal	323,275	324,113	323,275	324,113
Operation and Maintenance of Plant	1,054,761	1,000,352	1,039,761	985,352
Pupil Transportation	1,096,963	995,490	1,067,692	962,449
Central	5,250	2,748	5,250	2,748
Non-Instructional Services	658,302	682,186	(500,268)	(506,097)
Extracurricular Activities	292,005	286,209	188,740	201,539
Interest and Fiscal Charges	131,566	146,042	131,566	146,042
Total Expenses	<u>\$14,124,502</u>	<u>\$13,535,049</u>	<u>\$10,992,356</u>	<u>\$10,481,779</u>

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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

Several of the School District's programs receive substantial support through program revenues. For instance, special instruction received 75 percent of its funding through operating grants restricted to special education purposes. The vocational instruction program became more dependent on general revenue support due to reduced State tech-prep funding. Revenues from extracurricular activities, including athletic events, provided for 35 percent of the costs of these activities. For non-instructional services, the combination of operating grants and food service subsidies were in excess of program costs.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. For the General Fund, revenues were in excess of expenditures by \$576,026. The revenues from local property and income taxes, along with State Foundation payments facilitated the increase in fund balance for the General Fund. The Bond Retirement Fund also experienced an increase in fund balance as property taxes collected were slightly greater than the amount needed to make principal and interest 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 2005, the School District amended its General Fund budget as needed. The changes from original to final budget for revenues were very minor as were the changes from the final budget to actual revenues received.

The same can be said for the changes from original to final budget amounts for expenditures as well as from the final budget to actual expenditures.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005, the School District had \$13,260,467 invested in capital assets (net of accumulated depreciation), a decrease of 1 percent 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, two new school buses, a new scoreboard, and visitor side bleacher renovations at the football field. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Debt

At fiscal year end, the School District had general obligation bonds outstanding, in the amount of \$2,110,000, for school construction. These bonds won't be fully retired until fiscal year 2020. In addition, the School District had outstanding capital leases for equipment, in the amount of \$33,096. The School District's long-term obligations also 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 Columbus. The School District's enrollment has been fairly steady, serving approximately 1,780 students.

In fiscal year 2000, the School District received approximately 73 percent of its operating revenues through the State's basic aide "foundation" formula. In fiscal year 2005, the State's share of basic aide funding was reduced to 62 percent. 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 (the State assumes the increase in valuations means more local taxes will be collected). Local property valuations have increased an average of 7 percent each year since 2000. This increase represents a dramatic shift to more dependence on local property tax collections to fund our School District. The School District maintains one of the lowest gross property tax millage rates in the State of 22.3 mills, which includes 2.2 mills for bond retirement.

Although this past fiscal year did reflect a positive financial year overall, the forecasted trends do not fare quite as well. New revenue growth is expected to lag behind ordinary expenditure levels for at least the next two to three years. With the State's current priorities of less spending and lower taxes, there is very little chance that any new revenue will come from the State. Continued conservative obligations of only known resources will be essential. Nearly 80 percent of the total General Fund budget is expended for employee wages and fringe benefits. These costs, especially including health care benefits, continue to rise at a rate exceeding recent revenue growth.

The Ohio School Facilities Commission has recently begun an assessment of our current facility needs. Much work is to be done yet, but it appears that our School District may well be selected for additional facility funding in the very near future.

The Highland Local School District exists for its students. The challenge we embrace each day is allocating the given amount of resources as we work together to provide the highest level of educational opportunities for our students.

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, 2005

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$4,900,961
Accounts Receivable	11,333
Accrued Interest Receivable	11,020
Intergovernmental Receivable	421,863
Income Taxes Receivable	314,972
Prepaid Items	123,691
Inventory Held for Resale	23,414
Materials and Supplies Inventory	66,149
Property Taxes Receivable	3,449,428
Nondepreciable Capital Assets	135,673
Depreciable Capital Assets, Net	13,124,794
Total Assets	22,583,298
 <u>Liabilities:</u>	
Accounts Payable	27,538
Accrued Wages and Benefits Payable	1,414,994
Intergovernmental Payable	369,089
Matured Compensated Absences Payable	38,743
Deferred Revenue	2,724,413
Accrued Interest Payable	10,447
Long-Term Liabilities:	
Due Within One Year	227,171
Due in More Than One Year	2,742,392
Total Liabilities	7,554,787
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	11,117,371
Restricted For:	
Set Asides	899,428
Debt Service	1,369,381
Capital Projects	75,263
Other Purposes	740,332
Unrestricted	826,736
Total Net Assets	\$15,028,511

See Accompanying Notes to Basic Financial Statements

Highland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			
Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, and Contributions	
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$5,622,845	\$65,761	\$222,555	\$0
Special	1,659,611	9,909	1,228,024	0
Vocational	55,009	370	20,709	0
Support Services:				
Pupils	717,682	0	278,712	0
Instructional Staff	1,317,121	0	0	0
Board of Education	150,950	0	0	0
Administration	1,039,162	0	0	0
Fiscal	323,275	0	0	0
Operation and Maintenance of Plant	1,054,761	0	0	15,000
Pupil Transportation	1,096,963	720	0	28,551
Central	5,250	0	0	0
Non-Instructional Services	658,302	379,056	772,764	6,750
Extracurricular Activities	292,005	100,265	0	3,000
Interest and Fiscal Charges	131,566	0	0	0
Total Governmental Activities	\$14,124,502	\$556,081	\$2,522,764	\$53,301

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

Governmental
Activities

(\$5,334,529)
(421,678)
(33,930)

(438,970)
(1,317,121)
(150,950)
(1,039,162)
(323,275)
(1,039,761)
(1,067,692)
(5,250)
500,268
(188,740)
(131,566)

(10,992,356)

2,704,685
20,605
346,958
717,187
7,645,273
99,189
6,197
278,452

11,818,546

826,190

14,202,321
\$15,028,511

Highland Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$2,145,990	\$1,298,002	\$557,110	\$4,001,102
Accounts Receivable	1,728	0	9,605	11,333
Accrued Interest Receivable	11,020	0	0	11,020
Intergovernmental Receivable	23,177	0	398,686	421,863
Income Taxes Receivable	314,972	0	0	314,972
Prepaid Items	116,423	0	7,268	123,691
Inventory Held for Resale	0	0	23,414	23,414
Materials and Supplies Inventory	62,570	0	3,579	66,149
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	899,859	0	0	899,859
Property Taxes Receivable	3,051,581	376,146	21,701	3,449,428
Total Assets	\$6,627,320	\$1,674,148	\$1,021,363	\$9,322,831
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$12,092	\$0	\$15,446	\$27,538
Accrued Wages and Benefits Payable	1,283,166	0	131,828	1,414,994
Intergovernmental Payable	345,100	0	23,989	369,089
Matured Compensated Absences Payable	38,743	0	0	38,743
Deferred Revenue	2,634,152	314,561	76,108	3,024,821
Total Liabilities	4,313,253	314,561	247,371	4,875,185
<u>Fund Balances:</u>				
Reserved for Property Taxes	457,048	58,404	3,685	519,137
Reserved for Textbooks	514,407	0	0	514,407
Reserved for Capital Improvements	385,021	0	0	385,021
Reserved for Bus Purchase	431	0	0	431
Reserved for Encumbrances	35,586	0	156,817	192,403
Unreserved, Designated for Budget Stabilization	500,000	0	0	500,000
<u>Unreserved, Undesignated Reported in:</u>				
General Fund	421,574	0	0	421,574
Special Revenue Funds	0	0	538,227	538,227
Debt Service Fund	0	1,301,183	0	1,301,183
Capital Projects Funds	0	0	75,263	75,263
Total Fund Balances	2,314,067	1,359,587	773,992	4,447,646
Total Liabilities and Fund Balances	\$6,627,320	\$1,674,148	\$1,021,363	\$9,322,831

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, 2005

Total Governmental Fund Balances	\$4,447,646
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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.	13,260,467
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	31,887	
Intergovernmental Receivable	50,487	
Income Taxes Receivable	39,814	
Property Taxes Receivable	178,220	
		300,408

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

Accrued Interest Payable	(10,447)	
General Obligation Bonds Payable	(2,110,000)	
Compensated Absences Payable	(826,467)	
Capital Leases Payable	(33,096)	
		(2,980,010)

Net Assets of Governmental Activities	<u><u>\$15,028,511</u></u>
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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, 2005

	General	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$2,737,105	\$351,131	\$20,861	\$3,109,097
Income Taxes	724,377	0	0	724,377
Intergovernmental	8,233,681	43,823	1,973,673	10,251,177
Interest	99,648	0	1,371	101,019
Tuition and Fees	10,629	0	40,367	50,996
Extracurricular Activities	7,321	0	100,265	107,586
Charges for Services	0	0	379,104	379,104
Gifts and Donations	0	0	34,197	34,197
Miscellaneous	171,126	0	109,257	280,383
Total Revenues	<u>11,983,887</u>	<u>394,954</u>	<u>2,659,095</u>	<u>15,037,936</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	5,311,676	0	135,449	5,447,125
Special	1,357,892	0	295,684	1,653,576
Vocational	51,385	0	0	51,385
Support Services:				
Pupils	410,385	0	302,315	712,700
Instructional Staff	512,395	0	810,466	1,322,861
Board of Education	150,950	0	0	150,950
Administration	921,553	0	114,974	1,036,527
Fiscal	299,183	9,759	19,564	328,506
Operation and Maintenance of Plant	1,081,241	0	15,301	1,096,542
Pupil Transportation	1,110,092	0	0	1,110,092
Central	0	0	4,558	4,558
Non-Instructional Services	0	0	657,784	657,784
Extracurricular Activities	189,573	0	81,138	270,711
Capital Outlay	0	0	15,600	15,600
Debt Service:				
Principal Retirement	8,708	80,000	61,883	150,591
Interest and Fiscal Charges	2,828	127,913	1,500	132,241
Total Expenditures	<u>11,407,861</u>	<u>217,672</u>	<u>2,516,216</u>	<u>14,141,749</u>
Changes in Fund Balances	576,026	177,282	142,879	896,187
Fund Balances at Beginning of Year	<u>1,738,041</u>	<u>1,182,305</u>	<u>631,113</u>	<u>3,551,459</u>
Fund Balances at End of Year	<u>\$2,314,067</u>	<u>\$1,359,587</u>	<u>\$773,992</u>	<u>\$4,447,646</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, 2005

Changes in Fund Balances - Total Governmental Funds \$896,187

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 - Construction in Progress	11,322	
Capital Outlay - Depreciable Capital Assets	158,856	
Capital Contributions	3,000	
Depreciation	<u>(355,940)</u>	(182,762)

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a loss on disposal of capital assets on the statement of activities. (503)

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

Property Taxes	(36,849)	
Income Taxes	(7,190)	
Intergovernmental	(69,531)	
Interest	(459)	
Tuition and Fees	25,764	
Charges for Services	(48)	
Miscellaneous	<u>(1,931)</u>	(90,244)

Repayment of principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 150,591

Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the statement of net assets. 675

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 and, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	119,351	
Compensated Absences Payable	<u>(67,105)</u>	52,246

Change in Net Assets of Governmental Activities \$826,190

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$2,807,978	\$2,732,978	\$2,726,681	(\$6,297)
Income Taxes	650,000	700,000	702,761	2,761
Intergovernmental	8,050,022	8,188,522	8,233,026	44,504
Interest	60,000	80,000	94,531	14,531
Extracurricular Activities	10,000	6,700	7,321	621
Miscellaneous	39,000	39,000	53,792	14,792
Total Revenues	<u>11,617,000</u>	<u>11,747,200</u>	<u>11,818,112</u>	<u>70,912</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	5,449,791	5,448,667	5,309,105	139,562
Special	1,480,370	1,480,370	1,348,009	132,361
Vocational	53,695	53,695	64,964	(11,269)
Support Services:				
Pupils	448,491	448,491	411,695	36,796
Instructional Staff	504,280	504,280	496,931	7,349
Board of Education	155,050	155,050	155,437	(387)
Administration	938,267	938,267	914,007	24,260
Fiscal	314,545	314,545	294,127	20,418
Operation and Maintenance of Plant	1,125,161	1,125,161	1,078,727	46,434
Pupil Transportation	1,076,945	1,076,945	1,083,098	(6,153)
Extracurricular Activities	204,500	204,500	186,037	18,463
Capital Outlay	46,000	46,000	0	46,000
Total Expenditures	<u>11,797,095</u>	<u>11,795,971</u>	<u>11,342,137</u>	<u>453,834</u>
Excess of Revenues Over (Under) Expenditures	<u>(180,095)</u>	<u>(48,771)</u>	<u>475,975</u>	<u>524,746</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	125,000	150,000	153,581	3,581
Other Financing Uses	(200,000)	(160,000)	0	160,000
Total Other Financing Sources (Uses)	<u>(75,000)</u>	<u>(10,000)</u>	<u>153,581</u>	<u>163,581</u>
Changes in Fund Balance	(255,095)	(58,771)	629,556	688,327
Fund Balance at Beginning of Year	2,343,508	2,343,508	2,343,508	0
Prior Year Encumbrances Appropriated	36,199	36,199	36,199	0
Fund Balance at End of Year	<u>\$2,124,612</u>	<u>\$2,320,936</u>	<u>\$3,009,263</u>	<u>\$688,327</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$24,514</u></u>
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Liabilities:

Undistributed Assets	3,286
Due to Students	<u>21,228</u>
Total Liabilities	<u><u>\$24,514</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 318th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by eighty-nine classified employees, one hundred nineteen certified teaching personnel, and seven administrative employees who provide services to 1,780 students and other community members. The School District currently operates three elementary schools, a middle school, and a high school.

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

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, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's two major funds are the General Fund and the Bond Retirement debt service fund.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

The other governmental funds of the School District account for grants and other resources whose use 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 2005. 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, 2005, but which were levied to finance fiscal year 2006 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 2005, 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, 2005.

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 2005 was \$99,648, which includes \$35,214 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, 2005, 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 and capital improvements, 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, 2005

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, 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. Bonds and 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. As of June 30, 2005, net assets restricted by enabling legislation was \$1,280,999.

N. Fund Balance Reserves and Designations

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, 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.

A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the Board of Education. The designation for budget stabilization represents monies set aside by resolution of the Board of Education to offset revenue/expenditure fluctuations.

O. Capital Contributions

Capital contributions arise from outside contributions of capital assets.

P. 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.

Q. Extraordinary and Special Items

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 2 - Summary of Significant Accounting Policies (continued)

R. Estimates

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

Note 3 - Change in Accounting Principles

For 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any changes to the School District's financial statements.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Technical Bulletin 2004-2 establishes new guidance addressing the amount that should be recognized as expenditures/expenses and as liabilities each period by employers participating in cost-sharing multiple-employer pension and other postemployment benefit plans. The implementation of this bulletin did not result in any change to the School District's financial statements.

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2005, the DOE RAHS Grant special revenue fund had a deficit fund balance, in the amount of \$1,709, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The following funds had expenditures in excess of appropriations for the fiscal year ended June 30, 2005.

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds			
Student Reading Intervention	\$26,324	\$47,851	\$21,527
Title VI	2,046	8,814	6,768
DOE RAHS Grant	281,000	292,579	11,579
21 st Century	514,522	614,583	100,061

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 4 - Accountability and Compliance (continued)

Contrary to Ohio Revised Code Section 5705.41(D), the School District did not always properly certify the amount required to meet a commitment was lawfully appropriated and in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance for a portion of the School District's 2005 expenditures. The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

Note 5 - Budgetary Basis of Accounting

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

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

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

Changes in Fund Balance	
GAAP Basis	\$576,026
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received in Cash FY 2005	756,132
Accrued FY 2005, Not Yet Received in Cash	(768,326)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(1,583,733)
Accrued FY 2005, Not Yet Paid in Cash	1,679,101
Prepaid Items	(892)
Materials and Supplies Inventory	7,834
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(36,586)
Budget Basis	\$629,556

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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.

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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
7. The State Treasurer's investment pool (STAR Ohio).

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 6 - Deposits and Investments (continued)

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.

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".

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$3,168,807 of the School District's bank balance of \$3,368,807 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2005, the carrying value of funds on deposit with STAR Ohio was \$1,773,801. The School District's investments in STAR Ohio have an average maturity of 30.4 days. STAR Ohio carries a rating of AAA by Standards and Poor's.

Note 7 - Receivables

Receivables at June 30, 2005, 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, 2005

Note 7 - Receivables (continued)

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	
Tuition	\$21,900
Reimbursement	1,277
Total General Fund	<u>23,177</u>
Other Governmental Funds	
Student Reading Intervention	21,528
Title Idea	90,500
Title I	115,000
Innovative Programs Title V	6,768
Title II-A	14,750
DOE RAHS Grant	50,000
21 st Century	100,140
Total Other Governmental Funds	<u>398,686</u>
Total Intergovernmental Receivables	<u><u>\$421,863</u></u>

Note 8 - Income Taxes

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

Note 9 - Property Taxes

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, 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 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. 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 2005.

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, 2005, are available to finance fiscal year 2005 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, 2005, 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, 2005, was \$457,048 in the General Fund, \$3,685 in the Classroom Facilities special revenue fund, and \$58,404 in the Bond Retirement debt service fund. 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 late tax settlement made by the counties for fiscal year 2005 was \$24,310 in the General Fund, \$167 in the Classroom Facilities special revenue fund, and \$3,181 in the Bond Retirement debt service fund. For fiscal year 2004, these amounts were \$23,271 in the General Fund, \$160 in the Classroom Facilities special revenue fund, and \$3,045 in the Bond Retirement debt service fund.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$122,171,830	86.41%	\$128,666,200	86.47%
Industrial/Commercial	10,393,110	7.35	11,351,740	7.63
Public Utility	5,030,410	3.56	5,029,230	3.38
Tangible Personal	3,783,750	2.68	3,747,176	2.52
Total Assessed Value	<u>\$141,379,100</u>	<u>100.00%</u>	<u>\$148,794,346</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$22.85		\$21.80	

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$135,673	\$0	\$0	\$135,673
Construction in Progress	40,932	11,322	(52,254)	0
Total Nondepreciable Capital Assets	<u>176,605</u>	<u>11,322</u>	<u>(52,254)</u>	<u>135,673</u>
Depreciable Capital Assets				
Land Improvements	249,048	0	0	249,048
Buildings and Building Improvements	13,299,136	52,254	0	13,351,390
Furniture, Fixtures, and Equipment	863,196	47,626	(34,155)	876,667
Vehicles	1,562,500	114,230	0	1,676,730
Total Depreciable Capital Assets	<u>15,973,880</u>	<u>214,110</u>	<u>(34,155)</u>	<u>16,153,835</u>

(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 10 - Capital Assets (continued)

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Less Accumulated Depreciation				
Land Improvements	(\$21,892)	(\$9,323)	\$0	(\$31,215)
Buildings and Building Improvements	(1,260,712)	(161,503)	0	(1,422,215)
Furniture, Fixtures, and Equipment Vehicles	(423,860)	(67,838)	33,652	(458,046)
	(1,000,289)	(117,276)	0	(1,117,565)
Total Accumulated Depreciation	(2,706,753)	(355,940)	33,652	(3,029,041)
Depreciable Capital Assets, Net	13,267,127	(141,830)	(503)	13,124,794
Governmental Activities Capital Assets, Net	\$13,443,732	(\$130,508)	(\$52,757)	\$13,260,467

The School District accepted a contribution of depreciable capital assets for governmental activities with a fair value of \$3,000 during fiscal year 2005.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$134,531
Special	9,221
Vocational	2,280
Support Services:	
Pupils	1,633
Instructional Staff	11,570
Administration	9,145
Fiscal	225
Operation and Maintenance of Plant	18,966
Pupil Transportation	133,335
Central	692
Non-Instructional Services	10,648
Extracurricular Activities	23,694
Total Depreciation Expense	\$355,940

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 2005, the School District contracted for the following insurance coverage.

Coverage provided by Ohio School Plan is as follows:

Buildings and Contents - replacement cost	\$31,280,481
Automobile Liability	1,000,000
General School District Liability	
Per Occurrence	1,000,000
Total per Year	3,000,000
Excess Liability	2,000,000

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 2005, 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 2005, 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.

Note 12 - Defined Benefit Pension Plans (continued)

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, 2005, 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, 2005, 2004, and 2003 was \$748,768, \$725,367 and \$700,293, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$7,065 made by the School District and \$22,789 made by plan members.

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.

Note 12 - Defined Benefit Pension Plans (continued)

For the fiscal year ended June 30, 2005, 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 2005 was 14 percent of annual covered payroll; 10.57 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, 2005, 2004, and 2003 was \$191,876, \$156,019, and \$139,031, respectively; 47 percent has been contributed for the fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

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, 2005, all of the Board of Education members have elected Social Security. The Board's liability is 5.7 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 2005, 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 \$58,141.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004 (the latest information available). 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, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$98,570 for fiscal year 2005.

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 (the latest information available), 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.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 15 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
School Facilities Construction and Improvement Bonds					
FY 1997 5.875%	\$2,190,000	\$0	\$80,000	\$2,110,000	\$85,000
Energy Conservation Loan					
FY 2002 4.850%	61,883	0	61,883	0	0
Total General Long-Term Obligations	2,251,883	0	141,883	2,110,000	85,000
Compensated Absences Payable	759,362	110,790	43,685	826,467	132,806
Capital Leases Payable	41,804	0	8,708	33,096	9,365
Total Governmental Activities Long-Term Obligations	\$3,053,049	\$110,790	\$194,276	\$2,969,563	\$227,171

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 \$12,641,078 with an unvoted debt margin of \$148,794 at June 30, 2005.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 15 - Long-Term Obligations (continued)

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2005, were as follows:

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2006	\$85,000	\$122,653
2007	95,000	116,916
2008	100,000	110,700
2009	105,000	104,428
2010	115,000	97,966
2011-2015	705,000	374,678
2016-2020	905,000	133,216
Totals	\$2,110,000	\$1,060,557

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. 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 2005 were \$8,708.

	Governmental Activities
Copiers	\$47,932
Less Accumulated Depreciation	(15,978)
Carrying Value, December 31, 2004	\$31,954

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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, 2005.

Year	Governmental Activities	
	Principal	Interest
2006	\$9,365	\$2,171
2007	10,070	1,466
2008	10,829	707
2009	2,832	0
Total	\$33,096	\$4,344

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.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2005.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2004	\$444,055	\$341,102	\$44,467
Current Year Set Aside Requirement	252,911	252,911	0
Qualifying Expenditures	(182,559)	(208,992)	(44,467)
Balance June 30, 2005	\$514,407	\$385,021	\$0

Note 18 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2005, the School District paid \$56,801 to TRECA for various services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

B. Tri-Rivers Joint Vocational School

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

C. Highland Community Joint Recreation Board

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

D. North Central Ohio Special Education Regional Resource Center

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

Note 18 - Jointly Governed Organizations (continued)

E. North Central Regional Professional Development Center

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

Note 19 - Insurance Pools

A. Ohio School Plan

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

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

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

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

Note 20 - Related Organization

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

Note 21 - 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, 2005.

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, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$68,908	\$0	\$68,908
School Breakfast Program	04/05-PU-04/05	10.553	51,176	0	51,176	0
National School Lunch Program	LLP4-2005	10.555	<u>173,960</u>	<u>0</u>	<u>173,960</u>	<u>0</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>225,136</u>	<u>68,908</u>	<u>225,136</u>	<u>68,908</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
Grants to Reduce Alcohol Abuse	YR1 B Q03	84.184A	253,652	0	279,711	0
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2005	84.010	212,553	0	212,347	0
Special Education Grants to States	6BSF-2004/2005	84.027	309,320	0	292,601	0
Safe and Drug-Free Schools and Communities State Grants	DRS1-2005	84.186	8,282	0	8,282	0
21st Century Community Learning Centers	T1S1-2005	84.287	399,794	0	501,565	0
Innovative Educational Program Strategies	C2S1-2005	84.298	752	0	1,294	0
Technology Literacy Challenge Fund Grant	TJS1-2005	84.318	8,948	0	13,232	0
Comprehensive School Reform Demonstration (CSRD)	RFS3-2004	84.332	76,941	0	88,113	0
Improving Teacher Quality State Grants	TRS1-2005	84.367	<u>67,654</u>	<u>0</u>	<u>68,571</u>	<u>0</u>
<i>Total Passed Through Ohio Department of Education</i>			<u>1,084,244</u>	<u>0</u>	<u>1,186,005</u>	<u>0</u>
Total U.S. Department of Education			<u>1,337,896</u>	<u>0</u>	<u>1,465,716</u>	<u>0</u>
United States Department of Health and Human Services:						
<i>Passed-through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medicaid Program	N/A	93.778	<u>15,886</u>	<u>0</u>	<u>15,886</u>	<u>0</u>
Totals			<u>\$1,578,918</u>	<u>\$68,908</u>	<u>\$1,706,738</u>	<u>\$68,908</u>

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

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

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 the 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 non-monetary 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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Highland Local School District
Morrow County
6506 State Route 229
PO Box 98
Sparta, Ohio 43350-0098

To the Board of Education:

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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 9, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 9, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002. In a separate letter to the District's management dated January 9, 2006, we reported another matter related to noncompliance we deemed immaterial.

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Highland Local School District
Morrow County
Independent Accountants' Report On Internal Control Over
Financial Reporting and On Compliance and Other Matters
Required By *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

January, 9, 2006



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

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 apply to its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal programs. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to its major federal programs for the year ended June 30, 2005. In a separate letter to the District's management dated January 9, 2006, we reported a matter related to federal noncompliance not requiring inclusion in this report.

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Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when 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 a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 9, 2006.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 9, 2006

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.027— Special Education Grants to States CFDA #84.184A – Grants to Reduce Alcohol Abuse
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-001

Ohio Revised Code Section 5705.41(B) states in part that no subdivision or taxing unit is to make any expenditure of money unless it has been appropriated as provided in such chapter. As of June 30, 2005, the District had expenditures plus outstanding encumbrances exceeding appropriations within the following funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Disbursements</u>	<u>Variance</u>
Student Intervention Grant FY05	\$26,324	\$47,851	(\$21,527)
Title VI	2,046	8,814	(6,768)
DOE RAHS YR3 / FY05	281,000	292,579	(11,579)
21st Century Grant YR3	514,522	614,583	(100,061)

We recommend the Treasurer monitor available appropriations to avoid overspending available resources which would result in fund deficits, and if necessary deny payments that exceed appropriations. If available resources exist to make payment, the Treasurer may request the Board of Education to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2005-002

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-002 (Continued)

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Thirty (30) percent of the transactions tested were not certified by the Treasurer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

To improve controls over disbursements and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, “then and now” certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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HIGHLAND LOCAL SCHOOL DISTRICT

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 16, 2006**