



**Mary Taylor, CPA**  
Auditor of State



**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Highland Local School District  
Morrow County  
6506 State Route 229  
P.O. 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 Highland Local School District, Morrow County, Ohio, (the District) as of and for the year ended June 30, 2010, 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 financial position of the governmental activities, each major fund and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, as of June 30, 2010, and the respective changes in its 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 February 14, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

February 14, 2011

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Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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The discussion and analysis of Highland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. 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 2010 were as follows:

- Net assets increased \$220,286, or less than 1 percent.
- Construction on the new facilities is well underway. In August 2008, the residents of the School District approved a \$15 million, 4.4 mill bond issue to build a new High School and renovate the existing High School and Central Elementary. This work is in partnership with the Ohio School Facilities Commission - 25 percent local share and 75 percent paid by the State. The combined project budget for the construction and renovations is \$47 million.
- Other capital projects included a new athletic building next to the current facility. This building now provides much needed weight lifting and exercise space as well as locker rooms and batting cages for baseball and softball teams.
- Federal stimulus funds were beneficial to help support the State's Foundation/PASS formula and provide for additional Title funding. This funding was used to maintain staffing levels throughout the School District.
- The contract agreement with the Highland Education Association (the teacher's union) was negotiated for a two-year term which will expire in June 2012. This agreement calls for no increase to the base salary for the two-year period. The contract with the non-teaching staff has been negotiated for a three-year period to expire in June 2012 as well.

**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 non-major funds presented in total in a single column.



Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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**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 2010. 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 four major funds, the General Fund, the Bond Retirement Fund, the Building Construction Fund, and the Ohio School Facilities Commission Fund.

Governmental Funds - All 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  
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Unaudited

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2010 and fiscal year 2009:

	Table 1 Net Assets		
	2010	2009	Change
<u>Assets:</u>			
Current and Other Assets	\$48,993,751	\$60,786,040	(\$11,792,289)
Capital Assets, Net	30,720,468	15,082,097	15,638,371
Total Assets	<u>79,714,219</u>	<u>75,868,137</u>	<u>3,846,082</u>
<u>Liabilities:</u>			
Current and Other Liabilities	9,663,628	5,954,817	(3,708,811)
Long-Term Liabilities	16,290,527	16,373,542	83,015
Total Liabilities	<u>25,954,155</u>	<u>22,328,359</u>	<u>(3,625,796)</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	30,682,012	15,448,046	15,233,966
Restricted	22,563,477	36,691,367	(14,127,890)
Unrestricted	514,575	1,400,365	(885,790)
Total Net Assets	<u>\$53,760,064</u>	<u>\$53,539,778</u>	<u>\$220,286</u>

Although there was not a significant change in net assets overall, the School District did have several changes of note from the prior fiscal year. The decrease in current and other assets reflects a \$14 million decrease in cash and cash equivalents as resources were spent on construction of the new facilities. This decrease is also reflected in the increase capital assets net, the increase in invested in capital assets, and the decrease in restricted net assets. The School District also had a decrease in the receivable from intergovernmental sources as there were fewer amounts outstanding due from the Ohio School Facilities Commission at the end of fiscal year 2010.

The increase in current and other liabilities largely consists of amounts due to contractors for construction, including retainage amounts.

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

Table 2 reflects the changes in net assets for fiscal year 2010 and fiscal year 2009.

Table 2  
Change in Net Assets

	Governmental Activities		
	2010	2009	Change
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$467,640	\$490,532	(\$22,892)
Operating Grants, Contributions, and Interest	2,870,632	2,415,566	455,066
Capital Grants and Contributions	0	24,064	(24,064)
Total Program Revenues	<u>3,338,272</u>	<u>2,930,162</u>	<u>408,110</u>
General Revenues			
Property Taxes Levied for General Purposes	2,898,164	2,574,781	323,383
Property Taxes Levied for Classroom Facilities Purposes	68,532	60,828	7,704
Property Taxes Levied for Debt Service Purposes	796,996	676,041	120,955
Property Taxes Levied for Permanent Improvement Purposes	652,087	579,572	72,515
Income Taxes Levied for General Purposes	894,491	923,220	(28,729)
Grants and Entitlements	9,192,961	44,774,119	(35,581,158)
Interest	231,610	721,702	(490,092)
Gifts and Donations	9,930	9,014	916
Miscellaneous	378,486	288,537	89,949
Total General Revenues	<u>15,123,257</u>	<u>50,607,814</u>	<u>(35,484,557)</u>
Total Revenues	<u>18,461,529</u>	<u>53,537,976</u>	<u>(35,076,447)</u>
<u>Expenses:</u>			
Instruction:			
Regular	7,711,331	6,797,424	(913,907)
Special	2,402,410	2,119,855	(282,555)
Vocational	155,038	140,762	(14,276)
Support Services:			
Pupils	896,396	1,097,595	201,199
Instructional Staff	903,004	972,350	69,346
Board of Education	276,443	210,506	(65,937)
Administration	727,374	1,236,383	509,009
Fiscal	401,892	387,970	(13,922)
Operation and Maintenance of Plant	1,442,212	1,302,222	(139,990)
Pupil Transportation	1,374,071	1,345,850	(28,221)
Central	8,270	7,646	(624)
Non-Instructional Services	755,778	706,156	(49,622)
Extracurricular Activities	372,397	320,414	(51,983)
Interest and Fiscal Charges	814,627	697,792	(116,835)
Total Expenses	<u>18,241,243</u>	<u>17,342,925</u>	<u>(898,318)</u>
Increase in Net Assets	220,286	36,195,051	(35,974,765)
Net Assets at Beginning of Year	<u>53,539,778</u>	<u>17,344,727</u>	<u>36,195,051</u>
Net Assets at End of Year	<u>\$53,760,064</u>	<u>\$53,539,778</u>	<u>\$220,286</u>

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Management's Discussion and Analysis  
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Unaudited

Program revenues (which represent program grants and charges for services such as for food service operations and extracurricular activities) increased from the prior fiscal year largely due to additional federal stimulus funding in Title and IDEA grants. For general revenues, grants and entitlements were much less in fiscal year 2010 as the majority of construction funds from the State had been drawn. Interest revenues were affected by much lower interest rates earned on deposits in fiscal year 2010 and were considerably less than fiscal year 2009, which included investment earnings of bond proceeds.

Program expenses for instruction alone represent 56 percent of total expenses. When combined with the support services related to instruction, such as pupils, instructional staff, operation and maintenance, and pupil transportation, 82 percent of all School District expenses are related to the primary function of delivering education and maintaining facilities. With the receipt of the federal stimulus resources in fiscal year 2010, there was also an increase in the instructional costs of providing those programs.

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	
	2010	2009	2010	2009
Instruction:				
Regular	\$7,711,331	\$6,797,424	\$7,583,998	\$6,520,635
Special	2,402,410	2,119,855	557,537	972,544
Vocational	155,038	140,762	90,372	76,518
Support Services:				
Pupils	896,396	1,097,595	452,569	501,997
Instructional Staff	903,004	972,350	903,004	972,350
Board of Education	276,443	210,506	276,443	210,506
Administration	727,374	1,236,383	727,374	1,236,383
Fiscal	401,892	387,970	401,892	387,970
Operation and Maintenance of Plant	1,442,212	1,302,222	1,442,212	1,300,002
Pupil Transportation	1,374,071	1,345,850	1,374,071	1,321,786
Central	8,270	7,646	8,270	7,646
Non-Instructional Services	755,778	706,156	193	(10,865)
Extracurricular Activities	372,397	320,414	270,409	217,499
Interest and Fiscal Charges	814,627	697,792	814,627	697,792
Total Expenses	<u>\$18,241,243</u>	<u>\$17,342,925</u>	<u>\$14,902,971</u>	<u>\$14,412,763</u>

Program revenues provided for 18 percent of the costs of services in fiscal year 2010, approximately the same as in fiscal year 2009. Traditional support from federal title grants provided for much of the program revenues for the School District. General revenues such as local property taxes, income taxes, and unrestricted State entitlements (primarily State Foundation funding) provided for the remaining 82 percent of all program costs during the fiscal year.

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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The non-instructional service program which includes grants, food subsidies, and cafeteria sales was generally fully funded by program revenues in fiscal year 2010. Revenues from extracurricular activities, including athletic events, provided for 27 percent of the costs of these activities.

### **The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund represents the main operating fund for the day-in day-out operations of the School District. During fiscal year 2010, fund balance in the General Fund decreased \$767,591 (nearly 28 percent). This decrease was largely due to the one-time spending to complete the new athletic building of approximately \$425,000.

The fund balance in the Bond Retirement account increased \$52,395 as collections from property taxes were enough to cover the debt obligations during the year.

The Building Construction capital projects fund represents the locally funded initiatives spending portion of the construction project.

The Ohio School Facilities Commission capital projects fund accounts for resources received from the State and the local portion of the construction and renovation project. The increase in fund balance represents monies drawn while construction is ongoing.

### **General Fund Budgeting Highlights**

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the fiscal year the School District amended its General Fund budget as needed. For revenues, changes from the original budget to the final budget as well as from the final budget to actual revenues were not significant. The same can be said for expenditures.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

At June 30, 2010, the School District had \$30,720,468 invested in capital assets (net of accumulated depreciation), an increase of over 100 percent from the prior fiscal year. Additions for fiscal year 2010 included the continuation of the renovations of current school buildings, construction of a new high school, and final completion of a new athletic building. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

#### **Debt**

At fiscal year end, the School District had general obligation bonds outstanding, in the amount of \$15,373,185, for school construction. The School District also had outstanding capital leases for equipment, in the amount of \$50,358. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Notes 17 and 18 to the basic financial statements.

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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**Current Issues**

This is a very exciting and busy time for the Highland community. Work is well underway on a major \$47 million project to build a new High School and renovate the current High School into a Middle School as well as renovate the Middle School/Central Elementary into one large elementary school. The Ohio School Facilities Commission has partnered with the School District and will be paying 75 percent of the project cost.

The Highland Local School District is located in southern Morrow County and includes a small portion of northeastern Delaware County (Porter Township). The area is primarily rural farming and the tax base is primarily residential. Interstate 71 is within easy access to the School District residents and is an easy commute for many traveling to Columbus. The School District's enrollment has experience continued growth and is now serving 1,850 students.

Property values within the School District have historically steadily increased to support the student population. More recently property values have declined slightly with the widespread downturn in the housing market. The School District still maintains one of the lowest total property tax rates in the State of 24.5 mills, which includes 4.4 mills for bond retirement.

During fiscal 2008, the School District established a Permanent Improvement Fund by moving unvoted inside millage from property taxes. This move resulted in a positive effect on the State's Foundation funding formula. However, the State has since implemented a new Evidence Based Model to fund all schools beginning with fiscal year 2010. The Board of Education has since initiated the move of this inside millage back to the General Fund starting with calendar year 2011 real estate collections.

The forecasted trend for the School District largely depends on the State's funding system. With as much as 63 percent of the School District's operational monies coming from the State, continued conservative obligations will be the norm. Nearly 80 percent of the total General Fund budget is expended for employee wages and fringe benefits. These costs, including retirement and health care benefits, continue to be monitored closely.

The State will be dealing with a major budget deficit this upcoming biennium budget (2011, 2012). It is very unlikely that school districts will realize the same level of revenue they have grown use to. It also appears the federal state stabilization stimulus funding over the past two fiscal years will not continue. This combination of revenue declines could realistically mean as much as a \$1 million budget deficit for the School District in fiscal year 2012. This is a major cause for concern.

**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, 2010

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$40,572,550
Cash and Cash Equivalents with Escrow Agents	103,501
Accounts Receivable	43,722
Accrued Interest Receivable	76,786
Intergovernmental Receivable	2,748,115
Income Taxes Receivable	384,197
Prepaid Items	6,677
Inventory Held for Resale	29,232
Materials and Supplies Inventory	89,534
Property Taxes Receivable	4,740,164
Unamortized Issuance Costs	199,273
Nondepreciable Capital Assets	18,162,848
Depreciable Capital Assets, Net	12,557,620
Total Assets	<u>79,714,219</u>
 <u>Liabilities:</u>	
Accounts Payable	63,785
Contracts Payable	3,393,220
Accrued Wages and Benefits Payable	1,631,770
Matured Compensated Absences Payable	78,051
Intergovernmental Payable	553,044
Accrued Interest Payable	63,102
Deferred Revenue	3,299,931
Retainage Payable	580,725
Long-Term Liabilities:	
Due Within One Year	146,773
Due in More Than One Year	16,143,754
Total Liabilities	<u>25,954,155</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	30,682,012
Restricted For:	
Set Asides	874,404
Capital Projects	20,617,853
Food Service	158,326
Classroom Facilities	332,700
Other Purposes	580,194
Unrestricted	514,575
Total Net Assets	<u><u>\$53,760,064</u></u>

See Accompanying Notes to Basic Financial Statements

Highland Local School District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2010

	Program Revenues	
Expenses	Charges for Services	Operating Grants, Contributions, and Interest
<u>Governmental Activities:</u>		
Instruction:		
Regular	\$7,711,331	\$33,140
Special	2,402,410	0
Vocational	155,038	728
Support Services:		
Pupils	896,396	0
Instructional Staff	903,004	0
Board of Education	276,443	0
Administration	727,374	0
Fiscal	401,892	0
Operation and Maintenance of Plant	1,442,212	0
Pupil Transportation	1,374,071	0
Central	8,270	0
Non-Instructional Services	755,778	331,784
Extracurricular Activities	372,397	101,988
Interest and Fiscal Charges	814,627	0
Total Governmental Activities	\$18,241,243	\$467,640

General Revenues:

Property Taxes Levied for General Purposes  
Property Taxes Levied for Classroom Facilities Purposes  
Property Taxes Levied for Debt Service Purposes  
Property Taxes Levied for Permanent Improvement 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

(\$7,583,998)  
(557,537)  
(90,372)  
  
(452,569)  
(903,004)  
(276,443)  
(727,374)  
(401,892)  
(1,442,212)  
(1,374,071)  
(8,270)  
(193)  
(270,409)  
(814,627)  
(14,902,971)

2,898,164  
68,532  
796,996  
652,087  
894,491  
9,192,961  
231,610  
9,930  
378,486  
15,123,257

220,286

53,539,778  
\$53,760,064

Highland Local School District  
Balance Sheet  
Governmental Funds  
June 30, 2010

	General	Bond Retirement	Building Construction	Ohio School Facilities Commission	Other Governmental
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,153,161	\$328,958	3,084,235	31,943,508	\$2,186,114
Accounts Receivable	26,666	0	0	0	17,056
Accrued Interest Receivable	17,009	0	2,460	57,317	0
Intergovernmental Receivable	5,867	0	0	2,237,521	504,727
Income Taxes Receivable	384,197	0	0	0	0
Interfund Receivable	0	0	0	336,015	0
Prepaid Items	6,677	0	0	0	0
Inventory Held for Resale	0	0	0	0	29,232
Materials and Supplies Inventory	85,791	0	0	0	3,743
<u>Restricted Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	876,574	0	0	0	0
Cash and Cash Equivalents with Escrow Agents	0	0	0	103,501	0
Property Taxes Receivable	3,366,260	875,846	0	0	498,058
<b>Total Assets</b>	<b>\$6,922,202</b>	<b>\$1,204,804</b>	<b>\$3,086,695</b>	<b>\$34,677,862</b>	<b>\$3,238,930</b>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$36,115	\$0	\$0	\$1,246	\$26,424
Contracts Payable	0	0	43,733	3,349,487	0
Accrued Wages and Benefits Payable	1,492,455	0	0	0	139,315
Matured Compensated Absences Payable	78,051	0	0	0	0
Intergovernmental Payable	520,400	0	0	0	32,644
Interfund Payable	0	0	336,015	0	0
Deferred Revenue	2,818,527	704,075	2,163	2,252,611	863,056
Retainage Payable	0	0	0	477,224	0
<u>Payable from Restricted Assets:</u>					
Retainage Payable	0	0	0	103,501	0
<b>Total Liabilities</b>	<b>4,945,548</b>	<b>704,075</b>	<b>381,911</b>	<b>6,184,069</b>	<b>1,061,439</b>
<u>Fund Balances:</u>					
Reserved for Property Taxes	618,844	170,182	0	0	153,634
Reserved for Textbooks	874,404	0	0	0	0
Reserved for Bus Purchase	2,170	0	0	0	0
Reserved for Encumbrances	27,173	0	24,011	23,192,945	109,049
Unreserved, Designated for Budget Stabilization	50,000	0	0	0	0
<u>Unreserved, Undesignated Reported in:</u>					
General Fund	404,063	0	0	0	0
Special Revenue Funds	0	0	0	0	453,902
Debt Service Fund	0	330,547	0	0	0
Capital Projects Funds	0	0	2,680,773	5,300,848	1,460,906
<b>Total Fund Balances</b>	<b>1,976,654</b>	<b>500,729</b>	<b>2,704,784</b>	<b>28,493,793</b>	<b>2,177,491</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$6,922,202</b>	<b>\$1,204,804</b>	<b>\$3,086,695</b>	<b>\$34,677,862</b>	<b>\$3,238,930</b>

See Accompanying Notes to the Basic Financial Statements

Total  
Governmental  
Funds

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\$39,695,976  
43,722  
76,786  
2,748,115  
384,197  
336,015  
6,677  
29,232  
89,534

876,574  
103,501  
4,740,164  

---

\$49,130,493

\$63,785  
3,393,220  
1,631,770  
78,051  
553,044  
336,015  
6,640,432  
477,224

103,501  

---

13,277,042

942,660  
874,404  
2,170  
23,353,178  
50,000

404,063  
453,902  
330,547  
9,442,527  

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35,853,451  

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\$49,130,493

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Highland Local School District  
 Reconciliation of Total Governmental Fund Balances  
 to Net Assets of Governmental Activities  
 June 30, 2010

Total Governmental Fund Balances \$35,853,451

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. 30,720,468

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

Accounts Receivable	15,627	
Accrued Interest Receivable	33,827	
Intergovernmental Receivable	2,742,248	
Income Taxes Receivable	60,073	
Property Taxes Receivable	488,726	
		3,340,501

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds. 199,273

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

Accrued Interest Payable	(63,102)	
General Obligation Bonds Payable	(15,373,185)	
Compensated Absences Payable	(866,984)	
Capital Leases Payable	(50,358)	
		(16,353,629)

Net Assets of Governmental Activities \$53,760,064

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, 2010

	General	Bond Retirement	Building Construction	Ohio School Facilities Commission	Other Governmental
<u>Revenues:</u>					
Property Taxes	\$2,837,895	\$780,422	\$0	\$0	\$705,579
Income Taxes	877,694	0	0	0	0
Intergovernmental	9,169,320	113,642	0	26,588,153	2,256,858
Interest	84,279	0	15,938	154,194	197
Tuition and Fees	0	0	0	0	36,232
Extracurricular Activities	8,280	0	0	0	101,988
Charges for Services	0	0	0	0	331,784
Gifts and Donations	0	0	0	0	24,379
Miscellaneous	269,646	0	0	336,015	107,312
Total Revenues	<u>13,247,114</u>	<u>894,064</u>	<u>15,938</u>	<u>27,078,362</u>	<u>3,564,329</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	6,499,206	0	0	0	671,746
Special	1,853,977	0	0	0	556,611
Vocational	153,924	0	0	0	0
Support Services:					
Pupils	455,313	0	0	0	436,877
Instructional Staff	687,681	0	0	0	221,579
Board of Education	276,443	0	0	0	0
Administration	587,983	0	0	0	119,671
Fiscal	352,954	23,550	0	0	20,796
Operation and Maintenance of Plant	1,254,825	0	0	0	147,207
Pupil Transportation	1,238,927	0	0	0	0
Central	0	0	0	0	7,848
Non-Instructional Services	0	0	0	0	739,863
Extracurricular Activities	209,957	0	0	0	127,696
Capital Outlay	429,382	0	477,941	15,909,810	0
Debt Service:					
Principal Retirement	15,263	60,000	0	0	0
Interest and Fiscal Charges	2,845	758,119	0	0	0
Total Expenditures	<u>14,018,680</u>	<u>841,669</u>	<u>477,941</u>	<u>15,909,810</u>	<u>3,049,894</u>
Excess of Revenues Over (Under) Expenditures	(771,566)	52,395	(462,003)	11,168,552	514,435
<u>Other Financing Sources:</u>					
Sale of Capital Assets	<u>3,975</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Changes in Fund Balances	(767,591)	52,395	(462,003)	11,168,552	514,435
Fund Balances at Beginning of Year	2,744,245	448,334	3,166,787	17,325,241	1,663,056
Fund Balances at End of Year	<u>\$1,976,654</u>	<u>\$500,729</u>	<u>\$2,704,784</u>	<u>\$28,493,793</u>	<u>\$2,177,491</u>

See Accompanying Notes to the Basic Financial Statements

Total  
Governmental  
Funds

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\$4,323,896  
877,694  
38,127,973  
254,608  
36,232  
110,268  
331,784  
24,379  
712,973  

---

44,799,807

7,170,952  
2,410,588  
153,924  
  
892,190  
909,260  
276,443  
707,654  
397,300  
1,402,032  
1,238,927  
7,848  
739,863  
337,653  
16,817,133  
  
75,263  
760,964  

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34,297,994

10,501,813

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3,975

10,505,788

25,347,663  

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\$35,853,451

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, 2010

Changes in Fund Balances - Total Governmental Funds \$10,505,788

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 capital outlays exceeded depreciation in the current fiscal year:

Capital Outlay - Nondepreciable Capital Assets	16,077,325	
Capital Outlay - Depreciable Capital Assets	20,119	
Depreciation	<u>(459,073)</u>	15,638,371

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain or loss on disposal of capital assets on the statement of activities

Proceeds from Sale of Capital Assets	(3,975)	
Gain on Disposal of Capital Assets	<u>3,975</u>	0

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

Property Taxes	91,883	
Income Taxes	16,797	
Intergovernmental	(26,087,306)	
Interest	(22,801)	
Tuition and Fees	(2,364)	
Miscellaneous	<u>(2,447)</u>	(26,006,238)

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

General Obligation Bonds	60,000	
Capital Leases	<u>15,263</u>	75,263

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities.

Accrued Interest Payable	150	
Annual Accretion on Capital Appreciation Bonds	(54,416)	
Amortization of Premium	2,329	
Amortization of Discount	<u>(926)</u>	(52,863)

Issuance costs are reported as an expenditure when paid in the governmental funds but are amortized over the life of the debt on the statement of activities. (800)

(continued)



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, 2010  
(continued)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>\$60,765</u>
Change in Net Assets of Governmental Activities	<u><u>\$220,286</u></u>
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, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
<u>Revenues:</u>				
Property Taxes	\$2,765,000	\$2,765,000	\$2,797,474	\$32,474
Income Taxes	930,000	895,000	897,092	2,092
Intergovernmental	9,306,151	9,166,151	9,172,231	6,080
Interest	150,000	90,000	85,166	(4,834)
Extracurricular Activities	12,000	6,000	8,280	2,280
Miscellaneous	20,000	20,000	26,324	6,324
Total Revenues	<u>13,183,151</u>	<u>12,942,151</u>	<u>12,986,567</u>	<u>44,416</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,303,454	6,303,454	6,402,034	(98,580)
Special	1,714,745	1,714,745	1,869,838	(155,093)
Vocational	153,871	153,871	161,646	(7,775)
Support Services:				
Pupils	437,755	437,755	456,294	(18,539)
Instructional Staff	685,566	685,566	689,598	(4,032)
Board of Education	210,019	210,019	277,582	(67,563)
Administration	1,070,108	1,070,108	581,130	488,978
Fiscal	364,920	364,920	355,437	9,483
Operation and Maintenance of Plant	1,232,060	1,232,060	1,236,423	(4,363)
Pupil Transportation	1,132,810	1,122,810	1,244,090	(121,280)
Extracurricular Activities	203,050	203,050	200,293	2,757
Capital Outlay	546,619	546,619	434,208	112,411
Total Expenditures	<u>14,054,977</u>	<u>14,044,977</u>	<u>13,908,573</u>	<u>136,404</u>
Excess of Revenues				
Under Expenditures	<u>(871,826)</u>	<u>(1,102,826)</u>	<u>(922,006)</u>	<u>180,820</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	0	0	3,975	3,975
Refund of Prior Year Expenditures	150,000	215,000	231,633	16,633
Other Financing Uses	(250,000)	(250,000)	0	250,000
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>(35,000)</u>	<u>235,608</u>	<u>270,608</u>
Changes in Fund Balance	(971,826)	(1,137,826)	(686,398)	451,428
Fund Balance at Beginning of Year	3,650,421	3,650,421	3,650,421	0
Prior Year Encumbrances Appropriated	35,160	35,160	35,160	0
Fund Balance at End of Year	<u>\$2,713,755</u>	<u>\$2,547,755</u>	<u>\$2,999,183</u>	<u>\$451,428</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2010

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$37,009</u></u>
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Liabilities:

Undistributed Assets	\$1,825
Due to Students	<u>35,184</u>
Total Liabilities	<u><u>\$37,009</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 291<sup>st</sup> largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by ninety-six classified employees, one hundred twenty-nine certified teaching personnel, and eleven administrative employees who provide services to 1,850 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 four jointly governed organizations, an insurance pool, 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, Metropolitan Educational Council, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Selover Public Library. These organizations are presented in Notes 20, 21, and 22 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. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

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.

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

**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 major funds are the General Fund, Bond Retirement debt service fund, and the Building Construction and Ohio School Facilities Commission capital projects funds.

**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.

**Building Construction Fund** - The Building Construction Fund is used to account for bond proceeds used for the construction of a new high school and the renovation of the elementary, middle, and current high school.

**Ohio School Facilities Commission Fund** - The Ohio School Facilities Commission Fund is used to account for the construction of a high school and the renovation of the elementary, middle, and current high school.

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 2010. 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.

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

**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.

**D. Basis of Accounting**

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

**Revenues - Exchange and Nonexchange Transactions**

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

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and charges for services.



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

**Deferred Revenues**

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

Property taxes for which there was an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 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.

**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 alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative 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 final amended certificate of estimated resources requested by the School District prior to fiscal year end.

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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.

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

**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”.

Cash and cash equivalents that are held separately for the School District by escrow agents for payment of retainage to contractors upon project completion are recorded as “Cash and Cash Equivalents with Escrow Agent”.

During fiscal year 2010, the School District invested in nonnegotiable certificates of deposit, federal agency securities, U.S. Treasury securities, mutual funds, and STAR Ohio. Non-negotiable certificates of deposit are reported at cost. Investments are reported at fair value which is based on quoted market price or current share price. 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, 2010.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2010 was \$84,279, which includes \$33,888 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, 2010, 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 law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for the purchase of textbooks and instructional materials, as well as unexpended revenues restricted for bus purchases.

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

**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 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.

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:

Description	Useful Lives
Land Improvements	10 - 40 years
Buildings and Building Improvements	20 - 100 years
Furniture, Fixtures, and Equipment	5 - 50 years
Vehicles	10 years

**K. Interfund Receivables/Payables**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

**L. 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.

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

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.

**M. 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.

**N. Unamortized Issuance Costs, Premiums, and Discounts**

On government-wide financial statements, issuance costs, premiums, and discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges and are generally paid from debt proceeds. Bond premiums are presented as an addition to the face amount of bonds payable. Bond discounts are presented as a reduction of the face amount of bonds payable.

On the governmental fund financial statements, issuance costs and bond premiums and discounts are recognized in the period when the debt is issued.

**O. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding 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 music and athletic programs and federal and state grants.

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.

**P. 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, 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.

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

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.

**Q. Interfund Transactions**

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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.

**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 fiscal year 2010, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in the economic resources measurement focus financial statements. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements and the framework for selecting those principles. The implementation of this statement did not result in any changes to the financial statements.

**Note 3 - Change in Accounting Principles** (continued)

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' (AICPA) auditing literature into the GASB's accounting and financial reporting literature. This guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and the participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any changes to the financial statements.

**Note 4 - Accountability**

At June 30, 2010, Idea Part B and Title I special revenue funds had deficit fund balances, in the amount of \$5,718 and \$36,596, respectively, 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.

**Note 5 - Budgetary Basis of Accounting**

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

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

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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

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

Changes in Fund Balance	
GAAP Basis	(\$767,591)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2009, Received in Cash FY 2010	952,543
Accrued FY 2010, Not Yet Received in Cash	(981,472)
Expenditure Accruals:	
Accrued FY 2009, Paid in Cash FY 2010	(1,976,583)
Accrued FY 2010, Not Yet Paid in Cash	2,127,021
Cash Adjustments:	
Unrecorded Cash Activity FY 2009	15
Prepaid Items	345
Materials and Supplies Inventory	(10,124)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(30,552)
Budget Basis	(\$686,398)

**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.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 6 - Deposits and Investments** (continued)

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;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

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.

Investments

As of June 30, 2010, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Farm Credit Bank Notes	\$1,402,632	09/09/10
Federal Home Loan Bank Notes	100,219	09/09/10
Federal Home Loan Bank Notes	499,550	12/01/10
Federal Home Loan Bank Notes	1,979,855	12/17/10
Federal Home Loan Bank Notes	2,115,099	01/21/11
Federal Home Loan Bank Notes	1,009,060	03/16/11
Federal Home Loan Bank Notes	125,274	04/18/11
Federal Home Loan Bank Notes	1,771,368	06/24/11

(continued)



Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 6 - Deposits and Investments** (continued)

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Bank Notes	\$401,000	03/18/11
Federal Home Loan Bank Notes	504,065	05/16/11
Federal Home Loan Mortgage Corporation Notes	299,940	09/14/09
Federal Home Loan Mortgage Corporation Notes	199,980	08/23/10
Federal Home Loan Mortgage Corporation Notes	2,035,000	02/25/11
Federal National Mortgage Association Notes	199,980	08/09/10
Federal National Mortgage Association Notes	249,950	09/13/10
Federal National Mortgage Association Notes	249,900	10/13/10
Federal National Mortgage Association Notes	949,335	11/01/10
Federal National Mortgage Association Notes	249,800	11/15/10
Federal National Mortgage Association Notes	362,250	08/15/11
U.S. Treasury Notes	100,387	02/28/11
U.S. Treasury Notes	527,336	04/30/11
U.S. Treasury Notes	100,477	06/24/11
Mutual Funds	205,944	38 Days
Star Ohio	2,637,140	56 Days
Total Investments	<u>\$18,275,541</u>	

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of purchase unless they are matched to a specific obligation or debt of the School District.

The Federal Farm Credit Bank Notes, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, U.S. Treasury Bills, and mutual funds carry ratings of Aaa by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service and STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The School District places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of each investment to the School District's total portfolio.

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Federal Farm Credit Bank	\$1,402,632	7.67%
Federal Home Loan Bank	8,505,490	46.54
Federal Home Loan Mortgage Corporation	2,534,920	13.87
Federal National Mortgage Association	2,261,215	12.37
U.S. Treasury	728,200	3.98

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 7 - Receivables**

Receivables at June 30, 2010, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, interfund, 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, except income taxes and property taxes, are expected to be collected within one year. Income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Major Funds	
General Fund	
State of Ohio	\$5,867
Ohio School Facilities Commission	
Ohio School Facilities Commission	<u>2,237,521</u>
Other Governmental Funds	
Idea Part B	318,226
Title I	179,497
Title II-A	7,000
Title II-D	<u>4</u>
Total Other Governmental Funds	<u>504,727</u>
Total Intergovernmental Receivables	<u>\$2,748,115</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, 2010

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, 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 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, 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 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. 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 2010.

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, 2010, are available to finance fiscal year 2010 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, 2010, 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, 2010, was \$618,844 in the General Fund, \$14,394 in the Classroom Facilities special revenue fund, \$170,182 in the Bond Retirement debt service fund, and \$139,240 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2009, was \$584,201 in the General Fund, \$13,598 in the Classroom Facilities special revenue fund, \$160,655 in the Bond Retirement debt service fund, and \$131,446 in the Permanent Improvement capital projects fund.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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

For fiscal year 2010, the amount of the late personal property tax settlement made by the counties was \$5,778 in the General Fund, \$180 in the Classroom Facilities special revenue fund, \$1,589 in the Bond Retirement debt service fund, and \$1,300 in the Permanent Improvement capital projects fund.

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 2010 taxes were collected are:

	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$180,491,480	91.29%	\$181,970,890	90.89%
Industrial/Commercial	13,411,410	6.78	13,814,290	6.90
Public Utility	3,809,950	1.93	4,424,740	2.21
Total Assessed Value	<u>\$197,712,840</u>	<u>100.00%</u>	<u>\$200,209,920</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$24.50		\$24.50	

**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance at 6/30/09	Additions	Reductions	Balance at 6/30/10
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$383,389	\$0	\$0	\$383,389
Construction in Progress	2,159,744	16,077,325	(457,610)	17,779,459
Total Nondepreciable Capital Assets	<u>2,543,133</u>	<u>16,077,325</u>	<u>(457,610)</u>	<u>18,162,848</u>
Depreciable Capital Assets				
Land Improvements	286,148	0	0	286,148
Buildings and Building Improvements	13,946,255	457,610	0	14,403,865
Furniture, Fixtures, and Equipment	1,011,760	10,544	0	1,022,304
Vehicles	2,182,577	9,575	(228,348)	1,963,804
Total Depreciable Capital Assets	<u>17,426,740</u>	<u>477,729</u>	<u>(228,348)</u>	<u>17,676,121</u>

(continued)

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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

	Balance at 6/30/09	Additions	Reductions	Balance at 6/30/10
Less Accumulated Depreciation				
Land Improvements	(\$80,681)	(\$12,869)	\$0	(\$93,550)
Buildings and Building Improvements	(2,661,672)	(259,862)	0	(2,921,534)
Furniture, Fixtures, and Equipment	(662,706)	(54,463)	0	(717,169)
Vehicles	(1,482,717)	(131,879)	228,348	(1,386,248)
Total Accumulated Depreciation	<u>(4,887,776)</u>	<u>(459,073)</u>	<u>228,348</u>	<u>(5,118,501)</u>
Depreciable Capital Assets, Net	<u>12,538,964</u>	<u>18,656</u>	<u>0</u>	<u>12,557,620</u>
Governmental Activities				
Capital Assets, Net	<u>\$15,082,097</u>	<u>\$16,095,981</u>	<u>(\$457,610)</u>	<u>\$30,720,468</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$173,804
Special		13,877
Vocational		4,109
Support Services:		
Pupils		1,664
Instructional Staff		14,997
Administration		18,007
Fiscal		4,322
Operation and Maintenance of Plant		30,495
Pupil Transportation		147,627
Central		422
Non-Instructional Services		15,005
Extracurricular Activities		34,744
Total Depreciation Expense		<u>\$459,073</u>

**Note 11 - Interfund Activity**

At June 30, 2010, the Ohio School Facilities Commission capital projects fund had an interfund receivable, in the amount of \$336,015, from the Building Construction capital projects fund for the locally funded initiative costs related to the building construction.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 12- 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 2010, the School District contracted for the following insurance coverage.

Coverage purchased from Argonaut Insurance Group is as follows:

Buildings and Contents - replacement cost	\$37,998,000
Automobile Liability	1,000,000
General School District Liability	
Per Occurrence	1,000,000
Total per Year	3,000,000
Excess School District Liability	
Per Occurrence	2,000,000
Total per Year	2,000,000

Coverage purchased from The Hartford Insurance Group is as follows:

Builder's Risk	\$44,524,427
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Settled claims have not exceeded this commercial coverage in any of the past three years. In fiscal year 2010, insurance coverage was reduced to the minimal requirement. The School District added builders risk insurance in fiscal year 2010 due to building the new school.

For fiscal year 2010, 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. 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 13 - Significant Contractual Commitments**

The School District has several outstanding contracts for professional services. The following amounts remain on these contracts as of June 30, 2010:

Vendor	Contract Amount	Amount Paid as of 6/30/10	Outstanding Balance
Michael Shuster Associates	\$2,604,928	\$2,072,564	\$532,364
Osborn Engineering	148,296	48,938	99,358
Deer Creek Excavating	3,402,043	2,148,429	1,253,614
Adena Corporation	15,250,585	3,863,632	11,386,953
The Quandel Group, Inc.	2,470,335	922,389	1,547,946
Loopmaster International, Inc.	1,325,244	662,423	662,821
Stonecreek Interior Systems	769,300	135,210	634,090

**Note 14 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

Plan Description - The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the 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. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the STRS Ohio Board upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 was \$904,104, \$910,988, and \$845,123 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DCP and CP for fiscal year 2010 were \$23,021 made by the School District and \$37,883 made by the plan members

**Note 14 - Defined Benefit Pension Plans** (continued)

**B. School Employees Retirement System**

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 was \$274,700, \$195,387, and \$175,848 respectively; 16 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**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, 2010, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 15 - Postemployment Benefits**

**A. State Teachers Retirement System**

Plan Description - The School District contributes to a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which may be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health Care Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was \$71,317, \$70,076, and \$66,184 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.



**Note 15 - Postemployment Benefits** (continued)

**B. School Employees Retirement System**

Plan Description - The School District contributes to two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2010, the surcharge amount was \$45,046.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The School District's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was \$9,887, \$89,418, and \$80,245 respectively; 16 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2010, this actuarially required allocation was .76 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 was \$16,336, \$16,121, and \$12,670 respectively; 16 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**Note 16 - Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are 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.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 16 - Other Employee Benefits** (continued)

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 classified employees and two hundred forty-eight days for certified 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 classified employees and sixty-two days for certified 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 Metropolitan Insurance.

**Note 17 - Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2010 were as follows:

	Balance at 6/30/09	Additions	Reductions	Balance at 6/30/10	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
General Obligation Bonds					
School Facilities Construction and Improvement Bonds FY 2009					
Serial Bonds 3-4.5%	\$1,970,000	\$0	\$60,000	\$1,910,000	\$85,000
Term Bonds 5.25-5.50%	12,665,000	0	0	12,665,000	0
Capital Appreciation Bonds 13.12%	365,000	0	0	365,000	0
Accretion on Capital Appreciation Bonds	29,534	54,416	0	83,950	0
Bond Premium	582,135	0	2,329	579,806	0
Bond Discount	(231,497)	0	(926)	(230,571)	0
Total General Obligation Bonds	15,380,172	54,416	61,403	15,373,185	85,000
Compensated Absences Payable	927,749	0	60,765	866,984	45,773
Capital Leases Payable	65,621	0	15,263	50,358	16,000
Total Governmental Activities Long-Term Obligations	<u>\$16,373,542</u>	<u>\$54,416</u>	<u>\$137,431</u>	<u>\$16,290,527</u>	<u>\$146,773</u>

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 17 - Long-Term Obligations** (continued)

School Facilities Construction and Improvement Bonds FY 2009 - On November 25, 2008, the School District issued \$15,000,000 in voted general obligation bonds for constructing, renovating, and adding to buildings; furnishings and equipping such buildings; and improving School District sites. The bond issue included serial, term, and capital appreciation bonds, in the original amount of \$1,970,000, \$12,665,000, and \$365,000, respectively. The bonds were issued for a twenty-eight year period, with final maturity during fiscal year 2037. The bonds will be retired through the Bond Retirement debt service fund.

As of June 30, 2009, the School District had unspent bond proceeds, in the amount of \$14,522,058.

The serial bonds are subject to prior redemption on or after December 1, 2019, by and at the sole option of the School District, either in whole on any date or in part on any interest payment date on or after December 1, 2018, in integral multiples of \$5,000, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The bonds maturing on December 1, 2028, 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 the respective principal amounts as follows:

Year	Amount
2023	\$520,000
2024	635,000
2025	685,000
2026	740,000
2027	790,000

The remaining principal, in the amount of \$830,000, will be paid at stated maturity on December 1, 2028.

The bonds maturing on December 1, 2033, 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 the respective principal amounts as follows:

Year	Amount
2029	\$875,000
2030	920,000
2031	970,000
2032	1,025,000

The remaining principal, in the amount of \$1,075,000, will be paid at stated maturity on December 1, 2033.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 17 - Long-Term Obligations** (continued)

The bonds maturing on December 1, 2036, 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 the respective principal amounts as follows:

Year	Amount
2034	\$1,135,000
2035	1,200,000

The remaining principal, in the amount of \$1,265,000, will be paid at stated maturity on December 1, 2036.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2020 through 2023. The maturity amount of the bonds is \$1,840,000. For fiscal year 2010, \$54,416 was accreted on the capital appreciation bonds for a total value of \$448,950 at fiscal year end.

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 \$3,181,395 with an unvoted debt margin of \$195,785 at June 30, 2010.

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2010, were as follows:

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2011	\$85,000	\$755,944
2012	95,000	753,125
2013	155,000	748,869
2014	175,000	742,875
2015	195,000	735,938
2016-2020	1,305,000	3,831,100
2021-2025	1,420,000	4,502,350
2026-2030	3,920,000	2,606,409
2031-2035	5,125,000	1,401,688
2036-2037	2,465,000	137,363
Totals	\$14,940,000	\$16,215,661

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 18 - Capital Leases - Lessee Disclosure**

The School District has entered into capitalized leases for equipment. 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 2010 were \$15,263.

	Governmental Activities
Equipment	\$80,180
Less Accumulated Depreciation	(36,081)
Carrying Value, June 30, 2010	\$44,099

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, 2010.

Year	Governmental Activities	
	Principal	Interest
2011	\$16,000	\$2,110
2012	16,774	1,336
2013	17,584	526
Total	\$50,358	\$3,972

**Note 19 - Set Asides**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2010.

	Textbooks	Capital Improvements
Balance June 30, 2009	\$699,619	\$0
Current Year Set Aside Requirement	298,153	298,153
Qualifying Expenditures	(123,368)	(298,153)
Current Year Offsets	0	0
Balance June 30, 2010	\$874,404	\$0

**Note 20 - 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 2010, the School District paid \$258,179 to TRECA for various services. Financial information can be obtained from TRECA, 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 Tri-Rivers Joint Vocational School, 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 the Highland Community Joint Recreation Board, P.O. Box 278, Marengo, Ohio 43334.

**D. Metropolitan Educational Council**

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of one hundred sixty school districts, libraries, and related agencies in thirty-one counties. The purpose of the MEC is to obtain prices for quality merchandise and services commonly used by School Districts. The governing board of the MEC consists of one representative from each member School District. All member School Districts must pay all fees, charges, or other assessments as established by the MEC. Financial information can be obtained from the Metropolitan Educational Council, 2100 CityGate Drive, Columbus, Ohio 43219.

**Note 21 - Insurance Pool**

The School District participates in a group rating plan for workers' 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 22 - 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, P.O. Box 25, Chesterville, Ohio 43317.

**Note 23 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

**B. Litigation**

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

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**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 90,483	\$ 90,483
Cash Assistance:			
Breakfast Program	10.553	61,084	61,084
National School Lunch Program	10.555	264,420	264,420
Total Child Nutrition Cluster		<u>415,987</u>	<u>415,987</u>
Total U.S. Department of Agriculture		<u><b>415,987</b></u>	<u><b>415,987</b></u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Received Direct from the U.S. Department of Education:</i>			
Safe and Drug-Free Schools and Communities	84.184L	113,280	116,064
Elementary and Secondary School Counseling Program	84.215E	306,000	302,917
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	308,720	303,804
ARRA - Title I Grants to Local Educational Agencies	84.389	51,000	35,653
Total Title I Grants Cluster		<u>359,720</u>	<u>339,457</u>
Special Education Grants to States	84.027	318,433	312,971
ARRA - Special Education Grants to States	84.391	109,000	75,942
Total Special Education Grants to States Cluster		<u>427,433</u>	<u>388,913</u>
Safe and Drug-Free Schools and Communities			
State Grants for Innovative Programs	84.186	5,097	4,536
Education Technology State Grant	84.318	2,423	2,889
Improving Teacher Quality	84.367	74,810	75,511
ARRA - State Fiscal Stabilization Fund	84.394	555,436	555,436
Total U.S. Department of Education		<u><b>1,844,199</b></u>	<u><b>1,785,723</b></u>
<b>Total</b>		<u><b>\$ 2,260,186</b></u>	<u><b>\$ 2,201,710</b></u>

*The accompanying notes 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, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Highland Local School District (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The District reports commodities consumed on the Schedule at the fair value.



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 14, 2011. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, the Board of Education and federal awarding agencies and pass-through entities and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

February 14, 2011



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

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 could directly and materially affect each of the District's major federal programs for the year ended June 30, 2010. 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 each major federal program. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 Highland Local School District, Morrow County, Ohio, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2010.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



**Dave Yost**  
Auditor of State

February 14, 2011

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	<b>No</b>
<i>(d)(1)(ii)</i>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	<b>No</b>
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	<b>No</b>
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	<b>No</b>
<i>(d)(1)(iv)</i>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	<b>No</b>
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	<b>Unqualified</b>
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	<b>No</b>
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	CFDA #84.027 and #84.391 – Special Education Cluster (IDEA) CFDA #84.394 – State Fiscal Stabilization CFDA #84.010 and #84.389 – Title I Part A Cluster CFDA #84.215E – Elementary and Secondary School Counseling Program
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	<b>No</b>

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

None

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

None

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	Title I – Review and approval of the CCIP information.	Yes	





# Dave Yost • Auditor of State

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  
MARCH 22, 2011