



Mary Taylor, CPA
Auditor of State

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

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Mary Taylor, CPA

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, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, as of June 30, 2008, and the respective changes in financial position thereof, and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2008, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

November 7, 2008

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

The discussion and analysis of Highland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. 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 2008 were as follows:

- Net assets increased \$1,395,892 or almost 9 percent during the past fiscal year. This can be attributed to an 8 percent increase in revenues and just a 2 percent increase in expenses.
- During fiscal year 2008, the School District established a new Permanent Improvement Fund and moved 3.6 of the 4.6 inside (unvoted) operating mills to this fund. The fund began receiving these collections with the first-half 2008 property tax settlement. By reallocating this millage, there was not an increase in any local taxes charged but it has allowed the School District to maximize the State's Foundation formula funding.
- In August 2008, the residents of the School District approved a \$15 million, 4.4 mill bond issue to build and renovate new classroom facilities. This bond issue will pay the local portion of an Ohio School Facilities Commission project partnership - 25 percent local share and 75 percent paid by the State.
- The current 1996 School Facilities Construction and Improvement Bonds have provided for renovations and additions to the High School and West Elementary and for the new Central Elementary building. Currently, this levy collects 2.2 mills in property taxes. During fiscal year 2008, \$100,000 in principal was retired on these bonds. The bonds are expected to be paid off in December 2008 which will eliminate the 2.2 mill property tax.
- The negotiated contract agreement with the Highland Education Association (the teacher's union) will expire June 2010. The contract with the non-teaching staff will expire in June 2009.

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, 2008
Unaudited

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2008. 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 three major funds, the General Fund, the Bond Retirement Fund, and the Permanent Improvement 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
For the Fiscal Year Ended June 30, 2008
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2008 and fiscal year 2007:

	Table 1 Net Assets		
	2008	2007	Change
<u>Assets:</u>			
Current and Other Assets	\$12,459,268	\$11,443,189	\$1,016,079
Capital Assets, Net	12,617,733	12,853,410	(235,677)
Total Assets	25,077,001	24,296,599	780,402
<u>Liabilities:</u>			
Current and Other Liabilities	4,906,729	5,536,494	629,765
Long-Term Liabilities	2,825,545	2,811,270	(14,275)
Total Liabilities	7,732,274	8,347,764	615,490
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	10,707,553	10,909,749	(202,196)
Restricted	4,070,128	3,531,283	538,845
Unrestricted	2,567,046	1,507,803	1,059,243
Total Net Assets	\$17,344,727	\$15,948,835	\$1,395,892

The increase in total assets reflected above is due to the increase in current and other assets. Cash and cash equivalents increased almost \$960,000 due to the excess of revenues over expenses during fiscal year 2008 (an 8 percent increase in revenues and just a 2 percent increase in expenses).

At the end of fiscal year 2008, there was a greater amount of real estate taxes available to be advanced to the School District. Because this amount is available to finance the operations of the current fiscal year, it is recognized as revenue of the current fiscal year. As a result, there was a reduction in the amount of deferred revenue recorded for fiscal year 2008 and the resulting decrease in current and other liabilities.

The combination of the increase in current and other assets (cash and cash equivalents) and the decrease in current and other liabilities (deferred revenue) resulted in the increase unrestricted net assets.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Table 2 reflects the changes in net assets for fiscal year 2008 and fiscal year 2007.

Table 2
Change in Net Assets

	Governmental Activities		
	2008	2007	Change
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$506,008	\$506,599	(\$591)
Operating Grants, Contributions, and Interest	2,706,792	2,850,773	(143,981)
Capital Grants and Contributions	16,702	25,160	(8,458)
Total Program Revenues	<u>3,229,502</u>	<u>3,382,532</u>	<u>(153,030)</u>
General Revenues			
Property Taxes Levied for General Purposes	3,555,928	3,120,934	434,994
Property Taxes Levied for Classroom Facilities Purposes	94,529	22,526	72,003
Property Taxes Levied for Debt Service Purposes	448,399	390,254	58,145
Property Taxes Levied for Permanent Improvement Purposes	549,232	0	549,232
Income Taxes Levied for General Purposes	969,498	943,344	26,154
Grants and Entitlements	8,018,951	7,639,098	379,853
Interest	308,701	338,446	(29,745)
Miscellaneous	309,938	278,790	31,148
Total General Revenues	<u>14,255,176</u>	<u>12,733,392</u>	<u>1,521,784</u>
Total Revenues	<u>17,484,678</u>	<u>16,115,924</u>	<u>1,368,754</u>
<u>Expenses:</u>			
Instruction:			
Regular	6,394,730	6,245,966	(148,764)
Special	1,953,185	1,765,219	(187,966)
Vocational	132,990	112,749	(20,241)
Support Services:			
Pupils	1,179,410	1,186,341	6,931
Instructional Staff	941,405	1,121,388	179,983
Board of Education	163,330	148,336	(14,994)
Administration	1,206,442	1,108,277	(98,165)
Fiscal	373,199	321,455	(51,744)
Operation and Maintenance of Plant	1,244,450	1,169,187	(75,263)
Pupil Transportation	1,256,383	1,348,933	92,550
Central	72,822	7,689	(65,133)
Non-Instructional Services	686,385	689,895	3,510
Extracurricular Activities	373,282	351,971	(21,311)
Interest and Fiscal Charges	110,773	117,878	7,105
Total Expenses	<u>16,088,786</u>	<u>15,695,284</u>	<u>(393,502)</u>
Increase in Net Assets	1,395,892	420,640	975,252
Net Assets at Beginning of Year	<u>15,948,835</u>	<u>15,528,195</u>	<u>420,640</u>
Net Assets at End of Year	<u>\$17,344,727</u>	<u>\$15,948,835</u>	<u>\$1,395,892</u>

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Program revenues (which represent program grants and charges for services such as for food service operations and extracurricular activities) made up 18 percent of the total revenues, slightly less than fiscal year 2007. The decrease in operating grants and contributions is largely due to the 21st Century Grant ending in the prior fiscal year.

In total, general revenues increased almost 12 percent, primarily related to property taxes and unrestricted grants and entitlements. In addition to a general increase in property taxes, there was the addition of the inside millage allocation for permanent improvements. Unrestricted grants and entitlements (State foundation resources) increased due to an additional forty students attending the School District in fiscal year 2008.

Expenses remained fairly comparable to the prior fiscal year with just a 3 percent increase overall. Program expenses for instruction represented 53 percent of total expenses. When combined with the support services related to instruction, such as pupils, instructional staff, operation and maintenance, and pupil transportation, over 81 percent of all School District expenses are relating to the primary function of delivering education and maintaining facilities.

The largest contributors to the increase in expenses were related to regular and special instruction. These increases are due to additional staff and negotiated salary increases during the fiscal year.

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	
	2008	2007	2008	2007
Instruction:				
Regular	\$6,394,730	\$6,245,966	\$6,214,506	\$5,990,154
Special	1,953,185	1,765,219	679,222	599,034
Vocational	132,990	112,749	69,778	45,217
Support Services:				
Pupils	1,179,410	1,186,341	366,975	374,554
Instructional Staff	941,405	1,121,388	941,405	1,121,388
Board of Education	163,330	148,336	163,330	148,336
Administration	1,206,442	1,108,277	1,206,442	1,108,277
Fiscal	373,199	321,455	373,199	321,455
Operation and Maintenance of Plant	1,244,450	1,169,187	1,242,538	1,169,187
Pupil Transportation	1,256,383	1,348,933	1,188,336	1,323,773
Central	72,822	7,689	72,822	7,689
Non-Instructional Services	686,385	689,895	(14,960)	(255,049)
Extracurricular Activities	373,282	351,971	244,918	240,859
Interest and Fiscal Charges	110,773	117,878	110,773	117,848
Total Expenses	<u>\$16,088,786</u>	<u>\$15,695,284</u>	<u>\$12,859,284</u>	<u>\$12,312,722</u>

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Program revenues provided for 20 percent of the costs of services in fiscal year 2008, slightly less than fiscal year 2007. Traditional support from Federal Title Grants provided for much of the School District's program revenues. General revenues such as local property taxes and unrestricted State entitlements (primarily State Foundation funding) provided for the remaining 80 percent of all program costs during the fiscal year.

The non-instructional services program which includes grants, food subsidies, and cafeteria sales, had revenues slightly in excess of the total cost of services. Revenues from extracurricular activities, including athletic events, provided for 34 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 2008, fund balance in the General Fund increased \$796,306 (6 percent). This increase is largely due to increased property tax revenues and additional State funding for an increase of forty students.

Fund balance in the Bond Retirement Fund increased as property tax collections currently exceed amounts need to principal and interest payments on debt. Fund balance in the Permanent Improvement Fund increased as collections began on the movement of inside millage.

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, 2008, the School District had \$12,617,733 invested in capital assets (net of accumulated depreciation), a decrease of less than 2 percent from the prior fiscal year. This decrease is the primarily the result of annual depreciation expense in excess of capital asset additions. Additions for fiscal year 2008 included modular classrooms, new copier and duplicator machines, updates to computer servers, and video surveillance equipment. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Debt

At fiscal year end, the School District had general obligation bonds outstanding, in the amount of \$1,830,000, for school construction. In addition, the School District had outstanding capital leases for equipment, in the amount of \$80,180. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 16 to the basic financial statements.

Current Issues

This is a very exciting time for the Highland community. Just recently passed on August 5, 2008, was a \$15 million bond issue to raise the local share of the cost 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. The Ohio School Facilities Commission will be partnering with the School District and paying 75 percent of the project cost. The total project cost is \$47 million.

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 1,852 students.

During the first half of fiscal 2008, the School District researched alternative ways to raise additional general operating revenues in order to pay for extensive renovations to the aging buildings or to cover the costs to operate new classroom facilities. The Board of Education wanted to ensure that if the voters did approve new facilities that there would be adequate operational funding in place. One alternative was moving inside millage, the unvoted portion of property taxes, to a Permanent Improvement (PI) Fund. What was discovered was that moving this millage would not increase local taxes but would have a positive effect on State's Foundation funding formula. The Board agreed to move 3.6 of the existing 4.6 mills to the new PI Fund beginning in January 2008. The State's "Charge Off Supplement" will now increase by approximately the same 3.6 mills moved to the PI fund beginning with fiscal year 2009.

Property values within the School District have increased an average of 7 percent each year since 2000. The most recent property reappraisal in tax year 2005 increased residential property an average of 26 percent and all property values by 19 percent. Appraised values for 2008 are expected to reflect a much slower rate of increase, 1.5 to 2 percent. Updates to the agricultural use values for tax year 2008 should help boost the overall values. The School District still maintains one of the lowest total property tax rates in the State of 22.3 mills, which includes 2.2 mills for bond retirement.

Although fiscal 2008 did result in a positive financial year overall, the forecasted trend largely depends on the future of the State's funding system. With much 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.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

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, 2008

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$7,247,896
Accounts Receivable	50,609
Accrued Interest Receivable	24,966
Intergovernmental Receivable	377,201
Income Taxes Receivable	435,473
Prepaid Items	5,682
Inventory Held for Resale	33,381
Materials and Supplies Inventory	101,157
Property Taxes Receivable	4,182,903
Nondepreciable Capital Assets	134,576
Depreciable Capital Assets, Net	12,483,157
Total Assets	<u>25,077,001</u>
 <u>Liabilities:</u>	
Accounts Payable	73,325
Accrued Wages and Benefits Payable	1,495,715
Intergovernmental Payable	524,090
Deferred Revenue	2,804,640
Accrued Interest Payable	8,959
Long-Term Liabilities:	
Due Within One Year	191,389
Due in More Than One Year	2,634,156
Total Liabilities	<u>7,732,274</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	10,707,553
Restricted For:	
Set Asides	771,947
Debt Service	2,058,656
Capital Projects	652,529
Food Service	112,984
Classroom Facilities	163,648
Other Purposes	310,364
Unrestricted	2,567,046
Total Net Assets	<u><u>\$17,344,727</u></u>

See Accompanying Notes to Basic Financial Statements

Highland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, and Contributions
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$6,394,730	\$44,595	\$135,629	\$0
Special	1,953,185	0	1,273,963	0
Vocational	132,990	888	62,324	0
Support Services:				
Pupils	1,179,410	0	812,435	0
Instructional Staff	941,405	0	0	0
Board of Education	163,330	0	0	0
Administration	1,206,442	0	0	0
Fiscal	373,199	0	0	0
Operation and Maintenance of Plant	1,244,450	0	1,912	0
Pupil Transportation	1,256,383	0	51,345	16,702
Central	72,822	0	0	0
Non-Instructional Services	686,385	349,411	351,934	0
Extracurricular Activities	373,282	111,114	17,250	0
Interest and Fiscal Charges	110,773	0	0	0
Total Governmental Activities	<u>\$16,088,786</u>	<u>\$506,008</u>	<u>\$2,706,792</u>	<u>\$16,702</u>

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
Miscellaneous
Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year - Restated (Note 3)
Net Assets at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental
Activities

(\$6,214,506)
(679,222)
(69,778)

(366,975)
(941,405)
(163,330)
(1,206,442)
(373,199)
(1,242,538)
(1,188,336)
(72,822)
14,960
(244,918)
(110,773)

(12,859,284)

3,555,928
94,529
448,399
549,232
969,498
8,018,951
308,701
309,938

14,255,176

1,395,892

15,948,835

\$17,344,727

Highland Local School District
Balance Sheet
Governmental Funds
June 30, 2008

	General	Bond Retirement	Permanent Improvement	Other Governmental	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$3,581,603	\$1,930,601	353,639	\$592,350	\$6,458,193
Accounts Receivable	38,739	0	0	11,870	50,609
Accrued Interest Receivable	24,966	0	0	0	24,966
Interfund Receivable	7,608	0	0	0	7,608
Intergovernmental Receivable	9,440	161	264	367,336	377,201
Income Taxes Receivable	435,473	0	0	0	435,473
Prepaid Items	5,682	0	0	0	5,682
Inventory Held for Resale	0	0	0	33,381	33,381
Materials and Supplies Inventory	96,948	0	0	4,209	101,157
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	789,703	0	0	0	789,703
Property Taxes Receivable	2,997,556	398,427	701,929	84,991	4,182,903
Total Assets	\$7,987,718	\$2,329,189	\$1,055,832	\$1,094,137	\$12,466,876
Liabilities and Fund Balances:					
Liabilities					
Accounts Payable	\$51,615	\$0	\$0	\$21,710	\$73,325
Accrued Wages and Benefits Payable	1,345,348	0	0	150,367	1,495,715
Interfund Payable	0	0	0	7,608	7,608
Intergovernmental Payable	392,059	0	0	132,031	524,090
Deferred Revenue	2,284,248	290,479	525,218	81,396	3,181,341
Total Liabilities	4,073,270	290,479	525,218	393,112	5,282,079
Fund Balances:					
Reserved for Property Taxes	781,152	107,408	175,760	19,005	1,083,325
Reserved for Textbooks	555,330	0	0	0	555,330
Reserved for Capital Improvements	216,617	0	0	0	216,617
Reserved for Bus Purchase	17,756	0	0	0	17,756
Reserved for Encumbrances	62,717	0	0	85,735	148,452
Unreserved, Designated for Budget Stabilization	600,000	0	0	0	600,000
Unreserved, Undesignated Reported in:					
General Fund	1,680,876	0	0	0	1,680,876
Special Revenue Funds	0	0	0	521,022	521,022
Debt Service Fund	0	1,931,302	0	0	1,931,302
Capital Projects Funds	0	0	354,854	75,263	430,117
Total Fund Balances	3,914,448	2,038,710	530,614	701,025	7,184,797
Total Liabilities and Fund Balances	\$7,987,718	\$2,329,189	\$1,055,832	\$1,094,137	\$12,466,876

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 June 30, 2008

Total Governmental Fund Balances \$7,184,797

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. 12,617,733

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

Accounts Receivable	10,581	
Intergovernmental Receivable	6,767	
Accrued Interest Receivable	22,278	
Income Taxes Receivable	49,661	
Property Taxes Receivable	287,414	
		376,701

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

Accrued Interest Payable	(8,959)	
General Obligation Bonds Payable	(1,830,000)	
Compensated Absences Payable	(915,365)	
Capital Leases Payable	(80,180)	
		(2,834,504)

Net Assets of Governmental Activities \$17,344,727

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, 2008

	General	Bond Retirement	Permanent Improvement	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$3,547,339	\$444,562	\$502,844	\$90,834	\$4,585,579
Income Taxes	966,200	0	0	0	966,200
Intergovernmental	8,672,686	45,920	42,326	2,122,254	10,883,186
Interest	286,653	0	0	3,825	290,478
Tuition and Fees	4,021	0	0	43,485	47,506
Extracurricular Activities	14,140	0	0	112,114	126,254
Charges for Services	0	0	0	349,411	349,411
Gifts and Donations	0	0	0	27,879	27,879
Miscellaneous	199,266	0	0	110,672	309,938
Total Revenues	<u>13,690,305</u>	<u>490,482</u>	<u>545,170</u>	<u>2,860,474</u>	<u>17,586,431</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	6,060,170	0	0	167,724	6,227,894
Special	1,512,293	0	0	418,300	1,930,593
Vocational	134,293	0	0	0	134,293
Support Services:					
Pupils	394,293	0	0	794,967	1,189,260
Instructional Staff	608,826	0	0	312,109	920,935
Board of Education	163,330	0	0	0	163,330
Administration	1,052,837	0	0	113,708	1,166,545
Fiscal	343,746	11,329	14,556	2,343	371,974
Operation and Maintenance of Plant	1,301,691	0	0	11,116	1,312,807
Pupil Transportation	1,111,815	0	0	0	1,111,815
Central	0	0	0	72,130	72,130
Non-Instructional Services	0	0	0	670,600	670,600
Extracurricular Activities	199,449	0	0	145,785	345,234
Capital Outlay	82,784	0	0	0	82,784
Debt Service:					
Principal Retirement	8,047	100,000	0	0	108,047
Interest and Fiscal Charges	605	110,700	0	0	111,305
Total Expenditures	<u>12,974,179</u>	<u>222,029</u>	<u>14,556</u>	<u>2,708,782</u>	<u>15,919,546</u>
Excess of Revenues Over Expenditures	716,126	268,453	530,614	151,692	1,666,885
<u>Other Financing Sources</u>					
Inception of Capital Lease	<u>80,180</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>80,180</u>
Changes in Fund Balances	796,306	268,453	530,614	151,692	1,747,065
Fund Balances at Beginning of Year	3,118,142	1,770,257	0	549,333	5,437,732
Fund Balances at End of Year	<u>\$3,914,448</u>	<u>\$2,038,710</u>	<u>\$530,614</u>	<u>\$701,025</u>	<u>\$7,184,797</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2008

Changes in Fund Balances - Total Governmental Funds \$1,747,065

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

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

Capital Outlay	214,080	
Depreciation	<u>(436,977)</u>	(222,897)

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (12,780)

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

Property Taxes	62,509	
Income Taxes	3,298	
Intergovernmental	(187,585)	
Interest	22,048	
Tuition and Fees	<u>(2,023)</u>	(101,753)

Repayment of principal is an expenditure in governmental funds but the repayment reduces long-term liabilities on the statement of net assets. 108,047

The termination of a capital lease is not reflected in the governmental funds but the termination reduces long-term liabilities on the statement of net assets. 5,614

Interest is reported as an expenditure when due in governmental funds but is accrued on outstanding debt on the statement of net assets. 532

The inception of a capital lease is reported as an other financing source in governmental funds but increases long-term liabilities on the statement of net assets (80,180)

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. (47,756)

Change in Net Assets of Governmental Activities \$1,395,892

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, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
Revenues:				
Property Taxes	\$3,430,997	\$2,980,997	\$2,978,444	(\$2,553)
Income Taxes	840,000	950,000	993,492	43,492
Intergovernmental	8,293,059	8,642,059	8,672,686	30,627
Interest	325,000	305,000	286,540	(18,460)
Tuition and Fees	2,880	2,880	2,880	0
Extracurricular Activities	5,000	14,000	14,102	102
Miscellaneous	45,000	20,000	14,472	(5,528)
Total Revenues	12,941,936	12,914,936	12,962,616	47,680
Expenditures:				
Current:				
Instruction:				
Regular	6,358,138	6,367,638	6,024,276	343,362
Special	1,492,572	1,492,572	1,496,693	(4,121)
Vocational	119,710	119,710	133,740	(14,030)
Support Services:				
Pupils	402,375	402,375	392,239	10,136
Instructional Staff	555,319	555,319	585,550	(30,231)
Board of Education	209,905	209,905	180,333	29,572
Administration	1,042,486	1,042,486	1,052,483	(9,997)
Fiscal	352,256	352,256	342,182	10,074
Operation and Maintenance of Plant	1,239,222	1,239,222	1,255,005	(15,783)
Pupil Transportation	1,209,100	1,204,900	1,112,840	92,060
Extracurricular Activities	226,550	226,550	199,433	27,117
Capital Outlay	65,000	120,000	87,182	32,818
Total Expenditures	13,272,633	13,332,933	12,861,956	470,977
Excess of Revenues Over (Under) Expenditures	<u>(330,697)</u>	<u>(417,997)</u>	<u>100,660</u>	<u>518,657</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	172,120	157,120	161,445	4,325
Other Financing Uses	(250,000)	(195,000)	0	195,000
Advances Out	0	0	(7,608)	(7,608)
Total Other Financing Sources (Uses)	(77,880)	(37,880)	153,837	191,717
Changes in Fund Balance	(408,577)	(455,877)	254,497	710,374
Fund Balance at Beginning of Year	3,891,254	3,891,254	3,891,254	0
Prior Year Encumbrances Appropriated	154,277	154,277	154,277	0
Fund Balance at End of Year	\$3,636,954	\$3,589,654	\$4,300,028	\$710,374

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2008

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$23,588</u></u>
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Liabilities:

Undistributed Assets	576
Due to Students	<u>23,012</u>
Total Liabilities	<u><u>\$23,588</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 293rd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by one hundred classified employees, one hundred twenty-two certified teaching personnel, and seven administrative employees who provide services to 1,852 students and other community members. The School District currently operates three elementary schools, a middle school, and a high school.

Reporting Entity

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

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

The School District participates in five jointly governed organizations and two insurance pools, and is associated with a related organization. These organizations are the Tri-Rivers Educational Computer Association, Tri-Rivers Joint Vocational School, Highland Community Joint Recreation Board, Educational Regional Service System Region 7, Metropolitan Educational Council, Ohio School Plan, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Selover Public Library. These organizations are presented in Notes 19, 20, and 21 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. 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 three major funds are the General Fund, Bond Retirement debt service fund, and the Permanent Improvement capital projects fund.

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.

Permanent Improvement Fund - The Permanent Improvement Fund is used to account for the acquisition, construction, or improvement of capital facilities.

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 2008. 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 full accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

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

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

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, 2008, but which were levied to finance fiscal year 2009 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 School District's estimated resources at the time final appropriations were passed by the Board; however, due to the timing of this approval, the related certificate of estimated resources was not approved by the County Budget Commission until after 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”.

During fiscal year 2008, the School District invested in nonnegotiable certificates of deposit, which are reported at cost, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2008.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2008 was \$286,653, which includes \$92,435 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, 2008, 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 and for the acquisition and construction of capital improvements, 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, 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 Assets/Liabilities

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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. 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 restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2008, the School District did not have any net assets restricted by enabling legislation.

O. Fund Balance Reserves and Designations

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, textbooks, capital improvements, bus purchase, and encumbrances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

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

P. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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

Q. 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 - Changes in Accounting Principles, Correction of an Error, and Restatement of Net Assets

A. Changes in Accounting Principles

For fiscal year 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this statement for both the State Teachers Retirement System and the School Employees Retirement System postemployment healthcare plans, in the amount of \$10,955 and \$46,129, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 3 - Changes in Accounting Principles, Correction of an Error, and Restatement of Net Assets
(continued)

B. Correction of an Error and Restatement of Net Assets

In the prior fiscal year, the School District incorrectly recorded accumulated depreciation.

	Governmental Activities
Net Assets at June 30, 2007	<u>\$16,370,684</u>
Accumulated Depreciation	<u>(421,849)</u>
Restated Net Assets at June 30, 2007	<u><u>\$15,948,835</u></u>

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2008, the Safe Schools/Healthy Students special revenue fund had a deficit fund balance, in the amount of \$3,535, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The Uniform School Supplies and Highland Scholarship special revenue funds had final appropriations in excess of estimated resources plus available balances, in the amount of \$690 and \$3,261, respectfully, for the fiscal year ended June 30, 2008. The Treasurer will review budgetary activity to avoid future violations of budgetary compliance.

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, 2008

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	\$796,306
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2007, Received in Cash FY 2008	655,674
Accrued FY 2008, Not Yet Received in Cash	(1,221,926)
Expenditure Accruals:	
Accrued FY 2007, Paid in Cash FY 2008	(1,657,355)
Accrued FY 2008, Not Yet Paid in Cash	1,789,022
Cash Adjustments:	
Unrecorded Cash Activity FY 2007	14
Unrecorded Cash Activity FY 2008	(6)
Prepaid Items	(474)
Materials and Supplies Inventory	(27,878)
Advances Out	(7,608)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(71,272)
Budget Basis	\$254,497

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.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 6 - Deposits and Investments (continued)

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

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' acceptance 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, 2008, the fair value of funds on deposit with STAR Ohio was \$2,598,804. The School District's investments in STAR Ohio have an average maturity of 53.8 days. STAR Ohio carries a rating of AAA by Standards and Poor's. The School District has no policy regarding interest rate or credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 7 - Receivables

Receivables at June 30, 2008, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except property taxes, are expected to be collected within one year. Property taxes and income 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:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$1,171
Cardington LSD	2,880
Mt. Vernon CSD	1,152
Mid-Ohio ESC	3,134
State of Ohio	1,103
Total General Fund	9,440
Bond Retirement Fund	
Homestead and Rollback	161
Permanent Improvement Fund	
Homestead and Rollback	264
Total Major Funds	9,865
Other Governmental Funds	
Classroom Facilities	37
Clean Diesel School Bus Grant	5,134
Idea Part B	128,000
Title I	95,000
Total V	3,812
Title IV-A	5,996
Title II-A	18,000
Title II-D	2,211
Safe Schools/Healthy Students	107,234
FEMA Grant	1,912
Total Other Governmental Funds	367,336
Total Intergovernmental Receivables	\$377,201

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

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 2008 represent the collection of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed values as of January 1, 2007, 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 2008 represent the collection of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien on December 31, 2006, were levied after April 1, 2007, 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 2008 (other than public utility property) represent the collection of calendar year 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after October 1, 2007, on the value as of December 31, 2007. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2008 is 6.25 percent. This will be reduced to zero for 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 2008.

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, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 9 - Property Taxes (continued)

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, 2008, 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 and the late personal property tax settlement were 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, 2008, was \$781,152 in the General Fund, \$19,005 in the Classroom Facilities special revenue fund, \$107,408 in the Bond Retirement debt service fund, and \$175,760 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2007, was \$201,484 in the General Fund, \$1,595 in the Classroom Facilities special revenue fund, and \$25,000 in the Bond Retirement debt service fund.

The late tax settlement made by the counties for fiscal year 2008 was \$5,398 in the General Fund, \$210 in the Classroom Facilities special revenue fund, \$701 in the Bond Retirement debt service fund, and \$1,215 in the Permanent Improvement capital projects fund. For fiscal year 2007, these amounts were \$16,171 in the General Fund, \$412 in the Classroom Facilities special revenue fund, and \$1,816 in the Bond Retirement debt service 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 2008 taxes were collected are:

	2007 Second- Half Collections		2008 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$165,856,060	89.04%	\$170,526,290	89.98%
Industrial/Commercial	12,385,260	6.65	12,447,790	6.57
Public Utility	5,037,270	2.70	3,635,460	1.92
Tangible Personal	2,997,009	1.61	2,906,131	1.53
Total Assessed Value	<u>\$186,275,599</u>	<u>100.00%</u>	<u>\$189,515,671</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$21.80		\$22.30	

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance at 6/30/07	Additions	Reductions	Balance at 6/30/08
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$134,576	\$0	\$0	\$134,576
Depreciable Capital Assets				
Land Improvements	282,869	3,279	0	286,148
Buildings and Building Improvements	13,608,020	70,001	0	13,678,021
Furniture, Fixtures, and Equipment	930,593	140,800	(47,932)	1,023,461
Vehicles	1,951,770	0	0	1,951,770
Total Depreciable Capital Assets	16,773,252	214,080	(47,932)	16,939,400
Less Accumulated Depreciation				
Land Improvements	(55,012)	(12,800)	0	(67,812)
Buildings and Building Improvements	(2,178,241)	(234,060)	0	(2,412,301)
Furniture, Fixtures, and Equipment	(595,620)	(64,185)	35,152	(624,653)
Vehicles	(1,225,545)	(125,932)	0	(1,351,477)
Total Accumulated Depreciation	(4,054,418)	(436,977)	35,152	(4,456,243)
Depreciable Capital Assets, Net	12,718,834	(222,897)	(12,780)	12,483,157
Governmental Activities				
Capital Assets, Net	\$12,853,410	(\$222,897)	(\$12,780)	\$12,617,733

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$168,676
Special	13,877
Vocational	3,068
Support Services:	
Pupils	1,663
Instructional Staff	16,194
Administration	17,850
Fiscal	4,322
Operation and Maintenance of Plant	25,412
Pupil Transportation	142,052
Central	692
Non-Instructional Services	15,123
Extracurricular Activities	28,048
Total Depreciation Expense	\$436,977

Note 11 - Interfund Assets/Liabilities

At June 30, 2008, the General Fund had an interfund receivable, in the amount of \$7,608, from other governmental funds for short-term loans made to those funds.

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 2008, the School District contracted for the following insurance coverage.

Coverage purchased from the Ohio School Plan is as follows:

Buildings and Contents - replacement cost	\$36,964,214
Automobile Liability	2,000,000
General School District Liability	
Per Occurrence	1,000,000
Total per Year	3,000,000
Excess Liability	2,000,000

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

For fiscal year 2008, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2008, 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 - 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.

Note 13 - Defined Benefit Pension Plans (continued)

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on 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, 2008, 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. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. 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, 2008, 2007, and 2006 was \$845,123, \$829,114, and \$771,947 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DCP and CP for fiscal year 2008 were \$15,275 made by the School District and \$37,189 made by the plan members.

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.

Note 13 - Defined Benefit Pension Plans (continued)

Funding Policy - For the fiscal year ended June 30, 2008, 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 2008, 9.16 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, 2008, 2007, and 2006 was \$175,848, \$191,751, and \$177,883 respectively; 43 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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, 2008, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - 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.

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 2008, 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, 2008, 2007, and 2006 was \$66,184, \$64,650, and \$59,948 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 14 - 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 2008, 4.18 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 2008, this amount was \$118,640.

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, 2008, 2007, and 2006 was \$80,245, \$63,661, and \$62,077 respectively; 43 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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 2008, this actuarially required allocation was .66 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 was \$12,670, \$13,039, and \$14,158 respectively; 43 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 15 - 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.

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.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 15 - Other Employee Benefits (continued)

B. Health Care Benefits

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

Note 16 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2008 were as follows:

	Balance at 6/30/07	Additions	Reductions	Balance at 6/30/08	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
School Facilities Construction and Improvement Bonds FY 1997 5.875%	\$1,930,000	\$0	\$100,000	\$1,830,000	\$105,000
Compensated Absences Payable	867,609	81,161	33,405	915,365	71,830
Capital Leases Payable	13,661	80,180	13,661	80,180	14,559
Total Governmental Activities Long-Term Obligations	<u>\$2,811,270</u>	<u>\$161,341</u>	<u>\$147,066</u>	<u>\$2,825,545</u>	<u>\$191,389</u>

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 16 - Long-Term Obligations (continued)

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

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

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

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

Compensated absences will be paid from the General Fund and the Food Service, Title VI-B, and Title I special revenue funds.

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

The School District's overall debt margin was \$16,676,377 with an unvoted debt margin of \$182,974 at June 30, 2008.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 16 - Long-Term Obligations (continued)

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2008, were as follows:

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2009	\$105,000	\$104,428
2010	115,000	97,966
2011	125,000	90,915
2012	130,000	83,425
2013	140,000	75,494
2014-2018	850,000	237,938
2019-2020	365,000	20,122
Totals	\$1,830,000	\$710,288

Note 17 - 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. New capital leases are reflected in the accounts "Operation and Maintenance of Plant" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2008 were \$8,047. During fiscal year 2008, a capital lease was terminated which resulted in a reduction in the capital lease liability of \$5,614.

	Governmental Activities
Equipment	\$80,180
Less Accumulated Depreciation	(4,009)
Carrying Value, June 30, 2008	\$76,171

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, 2008.

Year	Governmental Activities	
	Principal	Interest
2009	\$14,559	\$3,551
2010	15,263	2,847
2011	16,000	2,110
2012	16,774	1,336
2013	17,584	526
Total	\$80,180	\$10,370

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 18 - 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 2008.

	Textbooks	Capital Improvements
Balance June 30, 2007	\$516,193	\$531,345
Current Year Set Aside Requirement	284,056	284,056
Qualifying Expenditures	(244,919)	(199,197)
Current Year Offsets	0	(399,587)
Balance June 30, 2008	\$555,330	\$216,617

Note 19 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2008, the School District paid \$119,818 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.

Note 19 - Jointly Governed Organizations (continued)

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. Educational Regional Service System Region 7

The School District participates in the Educational Regional Service System (ERSS) Region 7, a jointly governed organization consisting of educational entities within Crawford, Knox, Marion, Morrow, Richland, Seneca, and Wyandot counties. The purpose of the ERSS is to provide support services to school districts, community schools, and chartered nonpublic schools within the region by supporting State and school initiatives and efforts to improve school effectiveness and student achievement with a specific reference to the provision of special education and related services. The ERSS is governed by an advisory council, which is the policymaking body for the educational entities within the region, who identifies regional needs and priorities for educational services and develops corresponding policies to coordinate the delivery of services. They are also charged with the responsibility of monitoring the implementation of State and regional initiatives and school improvement efforts. The Advisory Council is made up of the director of the ERSS, the superintendent of each educational service center within the region, the superintendent of the region's largest and smallest school district, the director and an employee from each education technology center, one representative of a four-year institution of higher education and appointed by the Ohio Board of Regents, one representative of a two-year institution of higher education and appointed by the Ohio Association of Community Colleges, three board of education members (one each from a city, exempted village, and local school district within the region), and one business representative. The degree of control exercised by any participating educational entity is limited to its representation on the Advisory Council. Financial information can be obtained from the North Central Ohio Educational Service Center, 65 St. Francis Avenue, Tiffin, OH, 44883.

E. 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 20 - Insurance Pools

A. Ohio School Plan

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

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

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

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

Note 21 - Related Organization

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

Note 22 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

Note 22 - Contingencies (continued)

B. Litigation

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

Note 23 - Subsequent Events

On August 5, 2008, the voters approved a bond levy of 4.4 mills for the construction and renovation of School District buildings. The levy is for a twenty-eight year period.

On September 18, 2008, the School District issued School Improvement Bond Anticipation Notes, in the amount of \$15,000,000, for construction and renovation of School District buildings. The notes have an interest rate of 2.85 percent and mature on January 22, 2009.

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**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
<i>Passed Through Ohio Department of Education:</i>					
Food Distribution Program	10.550	\$ -	\$ 90,042	\$ -	\$ 90,042
Child Nutrition Cluster School Breakfast Program	10.553	50,308		50,308	
National School Lunch Program	10.555	239,067		239,067	
Total Child Nutrition Cluster		<u>289,375</u>	<u>90,042</u>	<u>289,375</u>	<u>90,042</u>
Total U.S. Department of Agriculture		<u>289,375</u>	<u>90,042</u>	<u>289,375</u>	<u>90,042</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>					
Safe and Drug Free Schools and Communities	84.184L	678,000	-	675,383	-
<i>Passed Through Ohio Department of Education:</i>					
Title I Grants to Local Educational Agencies	84.010	344,339	-	343,135	-
Special Education Grants to States	84.027	355,265	-	347,134	-
Safe and Drug-Free Schools and Communities State Grants	84.186	3,666	-	4,356	-
21st Century Community Learning Center	84.287	-	-	1,817	-
State Grants for Innovative Programs	84.298	252	-	2,490	-
Education Technology State Grants	84.318	241	-	230	-
Improving Teacher Quality	84.367	69,963	-	69,533	-
Total Passed Through Ohio Department of Education		<u>773,726</u>	<u>-</u>	<u>768,695</u>	<u>-</u>
Total U.S. Department of Education		<u>1,451,726</u>	<u>-</u>	<u>1,444,078</u>	<u>-</u>
Totals		<u>\$ 1,741,101</u>	<u>\$ 90,042</u>	<u>\$ 1,733,453</u>	<u>\$ 90,042</u>

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

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

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



Mary Taylor, CPA

Auditor of State

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

Highland Local School District
Morrow County
6506 State Route 229
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, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 7, 2008. 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 expressing our opinions on the financial statements, but not to opine 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 control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be 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.

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

We noted a certain matter that we reported to the District's management in a separate letter dated November 7, 2008.

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 did note a certain noncompliance or other matters that we reported to the District's management in a separate letter dated November 7, 2008.

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



Mary Taylor, CPA
Auditor of State

November 7, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Highland Local School District, Morrow County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings and questioned costs 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 contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in finding 2008-001 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding activities allowed or unallowed applying to its Title I Grants to Local Education Entities. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, Highland Local School District, Morrow County, Ohio, complied, in all material respects, with the requirements referred to above applying to each of its major federal programs for the year ended June 30, 2008.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
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www.auditor.state.oh.us

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2008-001 to be a significant deficiency.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider finding 2008-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

The District's response to the finding we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

November 7, 2008

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified – Title I: - Activities Allowed or Unallowed Unqualified – Special Education Grants to States Cluster
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.027 and #84.173 – Special Education Grants To States Cluster CFDA #84.010 – Title I Grants to Local Education Agencies
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Finding Number	Finding 2008-001
CFDA Title and Number	Title I, #84.010
Federal Award Number / Year	C1S1-2007/2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

**Activities Allowed or Unallowed
Material Weakness/ Noncompliance Finding/ Questioned Cost**

20 U.S.C. Sections 6314 & 6315 provides in a targeted assistance school, funds available under Part A may be used only for programs that are designed to help participating children meet the State's student performance standards expected of all children. Allowable activities in these schools include, but are not limited to, instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development.

The District paid the salary and fringe benefits of a standard classroom teacher in a school building that was required provided targeted assistance only to participating children eligible for Title I benefits. The School may only use Title I funds, in a targeted assistance building, for those students specifically determined to be eligible by the School. In this instance, all children, regardless of eligibility were provided services.

As a result, questioned costs for funds not spent for allowable activities/costs are \$41,969 (or 12.2% of total Title I Expenditures).

Compliance with grant requirements can be enhanced with appropriate training and review of grant requirements relating to targeted Title I funds.

We recommend that the District review requirements related to Title I targeted assistance and provide those services only to those students determined eligible. Periodic review of allowable activities should be reviewed and communicated between with the District Treasurer and assigned grant coordinators.

Official's Response and Corrective Action Plan:

In the 2007-2008 school year, the district had additional carryover Title I money from the previous year. Highland Central Elementary met the required 1:25 student/teacher ratio prior to Title I funds. Also the Title I instructor for the targeted program was hired and working with the lowest, most at-risk students. However, the other two elementary (North and West) still had lower class ratio in the K-4 grades. We discussed how to remedy this situation and it was our understanding that we could allocate the carryover money to hire an additional teacher to REDUCE CLASS SIZE at the Central Elementary to make it more in line with the other two elementary. We believed that since we were meeting the constraints of the Title I targeted program with the 07-08 allocation, this additional teacher, from previous carryover money was allowable. This situation of carryover dollars will not likely exist. The status of this finding and correction action plan has already been completed by the District. For more information, the responsible contact person is Jon Mason, Treasurer.



Mary Taylor, CPA
Auditor of State

HIGHLAND LOCAL CITY 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
DECEMBER 24, 2008**