



**Auditor of State
Betty Montgomery**

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Highland Local School District, Morrow County, (the District) as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Highland Local School District, Morrow County, as of June 30, 2002, and the respective changes in financial position and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2002, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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



BETTY MONTGOMERY
Auditor of State

February 18, 2003

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
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, 2002. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2002 were as follows:

Fiscal year 2002 was very active with the completion of many capital improvement initiatives. The Richard D. Slack Learning Center; an innovative three classroom science facility adjacent to Highland Community Park, was completed and ready for students in September 2001. The School District's transportation department received a much needed update to its maintenance facilities with a new three-bay bus garage located just south of the Central Elementary. Other noticeable improvements were made to the high school baseball and softball fields throughout the summer of 2001 and spring of 2002. The high school gymnasium was completely renovated with new bleachers, lighting, and floor refinishing. Another less noticeable initiative was the resolution of the long-standing sub-surface drainage issue for the baseball and softball fields. The drainage improvement involved an extensive amount of planning for ballfield areas and the drainage outlet east of the High School. An energy conservation plan was put into place to retrofit older lighting in the high school and middle school, as well as a larger air handler installed in the high school gymnasium. Roof repairs were made to the North and West Elementary buildings during fiscal 2002. With the exception of a \$350 thousand HB264 energy conservation loan, most significant capital improvements were made within the School District's General Fund.

In total, net assets decreased \$328 thousand, from \$13,278 thousand to \$12,950 thousand (a 2.5 percent decline). General operating revenues were adversely affected by reductions in investment income, state funding of Equity aid, and to a lesser extent reductions in the School District income tax receipts. General operating revenues (property taxes, income taxes, unrestricted state funding, interest, and miscellaneous) accounted for \$10,113 thousand, or 83 percent of all revenues.

Using the Basic Financial Statements

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

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

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

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2002. 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. Nonfinancial 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

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

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2002 compared to fiscal year 2001:

Table 1
Net Assets
(In Thousands)

	2002	2001
<u>Assets:</u>		
Current and Other Assets	\$6,624	\$8,596
Capital Assets, Net	13,754	12,031
Total Assets	20,378	20,627
 <u>Liabilities:</u>		
Current and Other Liabilities	3,885	3,990
Long-Term Liabilities	3,543	3,359
Total Liabilities	7,428	7,349
 <u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	10,924	9,331
Restricted	1,630	1,696
Unrestricted	396	2,251
Total Net Assets	\$12,950	\$13,278

As Table 1 indicates, total assets decreased \$249 thousand (1.2%) as compared to fiscal 2001. Current assets show a decline of nearly \$2 million, as capital assets represent a like increase. This shift from current assets to long-term (capital) assets is reflective of cash being spent for long-term capital projects, such as the Richard D. Slack Learning Center and the new bus garage over the period.

Total liabilities increased slightly (\$79 thousand) due to the new \$350 thousand energy conservation loan, amortized over a three year period. Two general obligation bonds for school building construction had normal reductions of \$165 thousand combined. Other long-term obligations include compensated absences which increased \$54 thousand over the period to \$713 thousand. This liability represents the calculation of sick leave balances for those employees meeting the School District's criteria of eleven years of service and vacation leave.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Table 2 reflects the changes in net assets for fiscal year 2002. Since this is the first year the School District has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2001 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Change in Net Assets
(In Thousands)

	2002
<u>Revenues</u>	
Program Revenues:	
Charges for Services and Sales	\$517
Operating Grants and Contributions	1,406
Capital Grants, Contributions, and Interest	154
Total Program Revenues	2,077
General Revenues:	
Property Taxes	2,697
Income Taxes	656
Grants and Entitlements	6,573
Interest	123
Miscellaneous	64
Total General Revenues	10,113
Total Revenues	12,190
 <u>Expenses</u>	
Instruction	6,793
Support Services:	
Pupils	236
Instructional Staff	1,070
Board of Education	167
Administration	920
Fiscal	250
Operation and Maintenance of Plant	1,085
Pupil Transportation	959
Central	11
Non-Instructional Services	582
Extracurricular Activities	271
Interest and Fiscal Charges	174
Total Expenses	12,518
Decrease in Net Assets	(\$328)

Program revenues represent charges for services such as food service/lunches and extracurricular activities/athletic events. The operating grants and contributions revenues are restricted intergovernmental resources, which are directly associated with certain governmental activities such as special education funding and food service subsidies.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Program expenses for instruction represent just over 54 percent of all governmental expenses. This combined with the support services related to instruction amount to well over 91 percent of all of the School District's expenses and are related to the primary functions of delivering education and maintaining facilities.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons to fiscal year 2001 have not been made since they are not available.

Table 3
Governmental Activities
(In Thousands)

	Total Cost of Services 2002	Net Cost of Services 2002
	2002	2002
Instruction	\$6,793	\$5,891
Support Services:		
Pupils	236	175
Instructional Staff	1,070	585
Board of Education	167	167
Administration	920	920
Fiscal	250	250
Operation and Maintenance of Plant	1,085	1,076
Pupil Transportation	959	903
Central	11	4
Non-Instructional Services	582	96
Extracurricular Activities	271	200
Interest and Fiscal Charges	174	174
Total Expenses	\$12,518	\$10,441

The School District's dependence on unrestricted state entitlements and local taxes for governmental activities is apparent. Nearly 87 percent of instruction activities are supported through unrestricted state funding and local tax revenues. The major offset to reduce net costs of instruction and pupils and staff support is operating grants designated for special education. For all governmental activities, support from general revenues is 83 percent.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$12,325 thousand and expenditures of \$14,380 thousand. The net decrease in fund balance of \$1,705 thousand is due to the School District's capital outlay spending in fiscal year 2002.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2002, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$10,066 thousand, were below original budgeted revenues, in the amount of \$312 thousand, a relatively small difference. However of this difference, state foundation revenues were overestimated by \$122 thousand, income tax collections by \$65 thousand, and interest income by \$97 thousand.

Final expenditures were budgeted at \$12,226 thousand while actual expenditures were \$11,790 thousand. The largest variance was an overestimate of instruction expenses of \$209 thousand. In total, actual expenses came within \$436 thousand of final budgeted amounts, again a relatively insignificant difference.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2002, the School District had \$13,754 thousand invested in capital assets (net of accumulated depreciation) for governmental activities, an increase of \$1,722 thousand, or 14 percent from the previous year.

As mentioned earlier, fiscal year 2002 was a culmination of many capital improvement projects. The two newly constructed facilities being the Richard D. Slack Learning Center and the bus garage, along with other building improvements added \$1,699 thousand to capital assets. Other significant capital additions were made to furniture/fixtures, computer equipment, and network infrastructure of \$253 thousand. Two new 72 passenger school buses were also purchased adding \$125 thousand.

For further information regarding the School District's capital assets see Note 10 to the basic financial statements.

Debt

As of the end of the 2002 fiscal year, the School District had two outstanding general obligation bonds. The 1980 Jr. High construction bonds have a remaining balance of \$200 thousand, with a final payment due in December 2003. The second is the 1997 Classroom Facilities bonds, with an outstanding balance of \$2.335 million.

During fiscal year 2002, the School District also obtained an energy conservation loan, which has an outstanding balance of \$295,104 at fiscal year end.

For further information regarding the School District's debt see Note 15 to the basic financial statements.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Current Issues

Funding

Highland Local School District is a rural school district in southern Morrow County serving approximately 1700 students. The School District has historically received approximately 75 percent of its operating revenues through the state foundation formula for school funding. This funding calculation is affected by local property valuation changes - as valuations increase, the state funding is decreased. Since 1998, local property valuations have increased 55 percent or \$43 million, from \$78 million to \$121 million. This increase represents a dramatic shift in revenues to the School District of less state funding and more local dependence on property tax collections. However, funding amounts reduced by the state's basic aid formula is greater than the increase in property tax revenues. In other words, the state assumes more revenue is generated by local property taxes than are actually received. Adjustments have been made to the funding formula by the state, such as parity aid, which has attempted to correct inadequacies for school districts. In total, revenue has managed a slim 2.2 percent average increase over the past four years. The state funding formula is absolutely critical to the School District to maintain current programming.

Budget

Expenditures for the School District will return to a more normal routine as the large capital projects are now complete. In the current climate of slower and uncertain revenue growth, obligating only known resources is essential. Nearly 80 percent of the General Fund budget is expended for employee wages and fringe benefits. These costs, including health benefits, continue to rise at a rate exceeding recent revenue growth. The challenge will be to address the expenditure and revenue trends to maintain the high level of excellent education.

Facilities

The School District has been very pleased over the past year with the new addition of the Richard D. Slack Learning Center. This facility, located adjacent to the Highland Community Park, creates a wonderful opportunity for students and staff to integrate the science and math learning with outdoor experiences. The School District encourages the use of this facility for community events.

Also, the School District has initiated discussions with a design architect and the Ohio School Facilities Commission to develop a plan for future facility needs. This plan is to be presented and discussed in early 2003.

Contacting the School District's Financial Management

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

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Highland Local School District
Statement of Net Assets
June 30, 2002

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,008,102
Cash and Cash Equivalents	
with Fiscal Agent	456
Accounts Receivable	24,101
Accrued Interest Receivable	9,488
Intergovernmental Receivable	66,307
Prepaid Items	93,418
Inventory Held for Resale	24,635
Materials and Supplies Inventory	85,076
Income Taxes Receivable	308,796
Property Taxes Receivable	3,003,584
Nondepreciable Capital Assets	135,673
Depreciable Capital Assets, Net	13,618,626
Total Assets	20,378,262
 <u>Liabilities:</u>	
Accounts Payable	29,251
Accrued Wages and Benefits Payable	1,255,382
Intergovernmental Payable	316,776
Matured Compensated Absences Payable	26,511
Deferred Revenue	2,243,912
Accrued Interest Payable	12,962
Matured Interest Payable	456
Long-Term Liabilities:	
Due Within One Year	307,975
Due in More Than One Year	3,235,472
Total Liabilities	7,428,697
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	10,924,195
Restricted For:	
Set Asides	171,742
Debt Service	987,719
Capital Projects	109,830
Other Purposes	359,924
Unrestricted	396,155
Total Net Assets	\$12,949,565

See Accompanying Notes to Basic Financial Statements

Highland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2002

	Program Revenues			Capital Grants, Contributions, and Interest	Net (Expense) Revenue and Change in Net Assets Governmental Activities
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$5,256,985	\$107,103	\$85,550	\$28,543	(\$5,035,789)
Special	1,450,686	25,328	608,874	0	(816,484)
Vocational	85,787	654	44,968	1,296	(38,869)
Support Services:					
Pupils	235,772	0	60,985	0	(174,787)
Instructional Staff	1,069,854	0	419,739	65,049	(585,066)
Board of Education	166,790	0	0	0	(166,790)
Administration	919,643	0	0	0	(919,643)
Fiscal	249,762	0	0	0	(249,762)
Operation and Maintenance of Plant	1,084,815	5,350	0	3,108	(1,076,357)
Pupil Transportation	959,548	660	0	55,779	(903,109)
Central	10,746	0	6,458	0	(4,288)
Non-Instructional Services	582,101	306,740	179,615	0	(95,746)
Extracurricular Activities	271,424	71,152	0	0	(200,272)
Interest and Fiscal Charges	174,181	0	0	0	(174,181)
Total Governmental Activities	<u>\$12,518,094</u>	<u>\$516,987</u>	<u>\$1,406,189</u>	<u>\$153,775</u>	<u>(10,441,143)</u>

General Revenues:

Property Taxes Levied for General Purposes	2,696,451
Income Taxes Levied for General Purposes	655,917
Grants and Entitlements not Restricted to Specific Programs	6,573,324
Interest	122,748
Miscellaneous	64,243
Total General Revenues	<u>10,112,683</u>
Change in Net Assets	(328,460)
Net Assets Beginning of Year (See Note 3)	<u>13,278,025</u>
Net Assets End of Year	<u>\$12,949,565</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Balance Sheet
Governmental Funds
June 30, 2002

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,416,654	\$938,064	\$481,642	\$2,836,360
Cash and Cash Equivalents				
with Fiscal Agent	0	456	0	456
Accounts Receivable	16,348	0	7,753	24,101
Accrued Interest Receivable	9,488	0	0	9,488
Intergovernmental Receivable	28,188	0	38,119	66,307
Prepaid Items	88,590	0	4,828	93,418
Inventory Held for Resale	0	0	24,635	24,635
Materials and Supplies Inventory	81,255	0	3,821	85,076
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	171,742	0	0	171,742
Income Taxes Receivable	308,796	0	0	308,796
Property Taxes Receivable	2,545,515	436,212	21,857	3,003,584
Total Assets	<u>\$4,666,576</u>	<u>\$1,374,732</u>	<u>\$582,655</u>	<u>\$6,623,963</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$24,270	\$0	\$4,981	\$29,251
Accrued Wages and Benefits Payable	1,165,156	0	90,226	1,255,382
Intergovernmental Payable	197,059	0	5,558	202,617
Matured Compensated Absences Payable	26,511	0	0	26,511
Deferred Revenue	2,118,427	356,896	23,057	2,498,380
Matured Interest Payable	0	456	0	456
Total Liabilities	<u>3,531,423</u>	<u>357,352</u>	<u>123,822</u>	<u>4,012,597</u>
<u>Fund Balances:</u>				
Reserved for Property Taxes	487,197	76,154	4,631	567,982
Reserved for Textbooks	127,275	0	0	127,275
Reserved for Budget Stabilization	44,467	0	0	44,467
Reserved for Encumbrances	22,276	0	55,386	77,662
Unreserved, Reported in:				
General Fund	453,938	0	0	453,938
Special Revenue Funds	0	0	290,910	290,910
Debt Service Fund	0	941,226	0	941,226
Capital Projects Funds	0	0	107,906	107,906
Total Fund Balances	<u>1,135,153</u>	<u>1,017,380</u>	<u>458,833</u>	<u>2,611,366</u>
Total Liabilities and Fund Balances	<u>\$4,666,576</u>	<u>\$1,374,732</u>	<u>\$582,655</u>	<u>\$6,623,963</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 June 30, 2002

Total Governmental Fund Balances \$2,611,366

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, not reported in the funds. 13,754,299

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

Accounts Receivable	6,710	
Intergovernmental Receivable	25,758	
Accrued Interest Receivable	7,908	
Income Taxes Receivable	45,805	
Property Taxes Receivable	168,287	
		254,468

Intergovernmental payable includes contractually required
 pension contributions not expected to be paid with
 available expendable resources and, therefore, not
 reported in the funds. (114,159)

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

Accrued Interest Payable	(12,962)	
General Obligation Bonds Payable	(2,535,000)	
Energy Conservation Loans Payable	(295,104)	
Compensated Absences Payable	(713,343)	
		(3,556,409)

Net Assets of Governmental Activities \$12,949,565

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, 2002

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$2,345,276	\$399,063	\$22,938	\$2,767,277
Income Taxes	650,914	0	0	650,914
Intergovernmental	7,093,483	50,936	1,020,081	8,164,500
Interest	124,269	0	3,108	127,377
Tuition and Fees	0	0	39,572	39,572
Extracurricular Activities	6,871	0	114,052	120,923
Charges for Services	0	0	306,652	306,652
Gifts and Donations	0	0	35,186	35,186
Miscellaneous	70,140	0	42,466	112,606
Total Revenues	<u>10,290,953</u>	<u>449,999</u>	<u>1,584,055</u>	<u>12,325,007</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	5,057,146	0	91,733	5,148,879
Special	1,103,160	0	321,302	1,424,462
Vocational	75,821	0	0	75,821
Support Services:				
Pupils	176,065	0	57,615	233,680
Instructional Staff	636,417	0	447,616	1,084,033
Board of Education	166,790	0	0	166,790
Administration	834,242	0	71,422	905,664
Fiscal	233,140	11,963	604	245,707
Operation and Maintenance of Plant	1,316,208	0	25,044	1,341,252
Pupil Transportation	971,171	0	900	972,071
Central	0	0	12,954	12,954
Non-Instructional Services	0	0	549,161	549,161
Extracurricular Activities	173,763	0	84,696	258,459
Capital Outlay	962,321	0	604,440	1,566,761
Debt Service:				
Principal Retirement	0	165,000	54,896	219,896
Interest and Fiscal Charges	0	164,591	10,232	174,823
Total Expenditures	<u>11,706,244</u>	<u>341,554</u>	<u>2,332,615</u>	<u>14,380,413</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,415,291)</u>	<u>108,445</u>	<u>(748,560)</u>	<u>(2,055,406)</u>
<u>Other Financing Sources (Uses):</u>				
Loans Issued	0	0	350,000	350,000
Transfers In	0	0	245,000	245,000
Transfers Out	(245,000)	0	0	(245,000)
Total Other Financing Sources (Uses)	<u>(245,000)</u>	<u>0</u>	<u>595,000</u>	<u>350,000</u>
Net Change in Fund Balances	(1,660,291)	108,445	(153,560)	(1,705,406)
Fund Balances at Beginning of Year (Restated Note 3)	<u>2,795,444</u>	<u>908,935</u>	<u>612,393</u>	<u>4,316,772</u>
Fund Balances at End of Year	<u>\$1,135,153</u>	<u>\$1,017,380</u>	<u>\$458,833</u>	<u>\$2,611,366</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, 2002

Net Change in Fund Balances - Total Governmental Funds (\$1,705,406)

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

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

Capital Outlays - Depreciable Capital Assets	1,997,940	
Depreciation	<u>(274,984)</u>	
		1,722,956

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

Property Taxes	(70,826)	
Income Taxes	5,003	
Intergovernmental	(91,534)	
Interest	(1,521)	
Tuition and Fees	5,909	
Charges for Services	88	
Miscellaneous	<u>17,508</u>	
		(135,373)

Repayment of principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 219,896

Debt proceeds are other financing sources in governmental funds, but the issuance increases long-term liabilities on the statement of net assets.

Loans Payable (350,000)

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

Accrued Interest Payable 642

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

Intergovernmental Payable	(27,043)	
Compensated Absences Payable	<u>(54,132)</u>	
		<u>(81,175)</u>

Change in Net Assets of Governmental Activities (\$328,460)

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, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$2,250,891	\$2,234,891	\$2,244,440	\$9,549
Income Taxes	690,000	625,000	631,915	6,915
Intergovernmental	7,169,109	7,046,888	7,095,253	48,365
Interest	235,000	138,000	138,947	947
Extracurricular Activities	5,694	6,672	6,871	199
Miscellaneous	27,000	14,500	19,994	5,494
Total Revenues	<u>10,377,694</u>	<u>10,065,951</u>	<u>10,137,420</u>	<u>71,469</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	4,948,763	5,099,642	4,986,604	113,038
Special	1,187,515	1,201,515	1,106,981	94,534
Vocational	76,500	82,500	80,589	1,911
Support Services:				
Pupils	199,975	199,975	190,482	9,493
Instructional Staff	642,527	643,527	606,084	37,443
Board of Education	161,350	187,350	176,341	11,009
Administration	863,135	862,135	836,375	25,760
Fiscal	225,430	242,630	233,534	9,096
Operation and Maintenance of Plant	1,372,961	1,457,961	1,369,317	88,644
Pupil Transportation	1,017,306	998,037	969,275	28,762
Central	0	0	0	0
Extracurricular Activities	170,700	184,700	175,696	9,004
Capital Outlay	1,030,574	1,065,574	1,058,640	6,934
Total Expenditures	<u>11,896,736</u>	<u>12,225,546</u>	<u>11,789,918</u>	<u>435,628</u>
Excess of Revenues				
Under Expenditures	<u>(1,519,042)</u>	<u>(2,159,595)</u>	<u>(1,652,498)</u>	<u>507,097</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	5,000	30,000	32,319	2,319
Other Financing Uses	(150,000)	(215,219)	0	215,219
Transfers Out	(395,219)	(245,000)	(245,000)	0
Total Other Financing Sources (Uses)	<u>(540,219)</u>	<u>(430,219)</u>	<u>(212,681)</u>	<u>217,538</u>
Net Change in Fund Balance	(2,059,261)	(2,589,814)	(1,865,179)	724,635
Fund Balance at Beginning of Year	2,320,730	2,320,730	2,320,730	0
Prior Year Encumbrances Appropriated	1,108,591	1,108,591	1,108,591	0
Fund Balance at End of Year	<u>\$1,370,060</u>	<u>\$839,507</u>	<u>\$1,564,142</u>	<u>\$724,635</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2002

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$22,453</u></u>
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Liabilities:

Undistributed Assets	825
Due to Students	<u>21,628</u>
Total Liabilities	<u><u>\$22,453</u></u>

See Accompanying Notes to the Basic Financial Statements

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 326th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by ninety classified employees, one hundred and five certified teaching personnel, and six administrative employees who provide services to 1,717 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 (TRECA), Tri-Rivers Joint Vocational School, Highland Community Joint Recreation Board, North Central Ohio Special Education Regional Resource Center, North Central Regional Professional Development Center, Ohio School Plan, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Selover Public Library. These organizations are presented in Notes 18, 19, and 20 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2002. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities and payroll withholdings.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 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.

Note 2 - Summary of Significant Accounting Policies (continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

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

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

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

F. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents held for the School District by Bank One, who services the School District's bond and coupon payments, are reported as "Cash and Cash Equivalents with Fiscal Agent".

Note 2 - Summary of Significant Accounting Policies (continued)

During fiscal year 2002, investments were limited to nonnegotiable certificates of deposit, which are reported at cost, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

The Board of Education has allocated interest earnings according to Ohio statutes. Interest revenue credited to the General Fund during fiscal year 2002 was \$124,269, which includes \$48,057 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, 2002, 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, which is determined on a first-in, first-out basis. Inventory is expensed when used on the government-wide financial statements or recorded as an expenditure when used on the fund financial statements.

Inventory consists of administrative supplies and donated and purchased food.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of textbooks and other instructional materials and budget stabilization.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of two thousand five hundred dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Land Improvements	30 - 40 years
Buildings and Building Improvements	20 - 100 years
Furniture, Fixtures, and Equipment	5 - 50 years
Vehicles	10 years

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

Note 2 - Summary of Significant Accounting Policies (continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

N. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, textbooks, budget stabilization, and encumbrances.

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

O. Interfund Transactions

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

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. The District had no extraordinary or special items.

R. Estimates

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

Note 3 - Change in Accounting Principles and Restatement of Fund Balance

A. Change in Accounting Principles

For fiscal year 2002, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2001, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

For fiscal year 2002, the School District has increased the threshold amount for capitalizing fixed assets. The threshold amount was increased from \$500 to \$2,500.

B. Restatement of Fund Balance

The restatement due to the implementation of the above statements and interpretation had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 3 - Change in Accounting Principles and Restatement of Fund Balance (continued)

The transition from governmental fund balance to net assets of governmental activities is as follows:

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Activities
Fund Balance June 30, 2001	\$2,847,008	\$908,935	\$588,864	\$4,344,807
GASB Statement No. 34 Adjustments:				
Change in Fund Structure	0	0	23,529	23,529
Compensated Absences Payable	(51,564)	0	0	(51,564)
Adjusted Fund Balance	\$2,795,444	\$908,935	\$612,393	4,316,772
GASB Statement No. 34 Adjustments:				
Accounts Receivable				21,738
Accrued Interest Receivable				9,429
Intergovernmental Receivable				78,759
Income Taxes Receivable				40,802
Property Taxes Receivable				239,113
Capital Assets				12,031,343
Intergovernmental Payable				(87,116)
Accrued Interest Payable				(13,604)
Bonds Payable				(2,700,000)
Compensated Absences Payable				(659,211)
Governmental Activities Net Assets at June 30, 2001				\$13,278,025

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2002, the Title I special revenue fund had a deficit fund balance, in the amount of \$22,581, 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

For the fiscal year ended June 30, 2002, the Technology E-Rate special revenue fund had expenditures in excess of appropriations, in the amount of \$8,056, for the central/salaries account. The Interactive Video Distance Learning capital projects fund had expenditures in excess of appropriations, in the amount of \$46,475, for the capital outlay account. The School District will make sure all appropriations are reviewed prior to making expenditures.

Contrary to Ohio law, the District's Food Service fund, Title I fund and the Ohio School Net Technology Learning Centers fund had significant negative balances at various times throughout the year. The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 5 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance	
GAAP Basis	(\$1,660,291)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2001, Received in Cash FY 2002	654,871
Accrued FY 2002, Not Yet Received in Cash	(789,908)
Expenditure Accruals:	
Accrued FY 2001, Paid in Cash FY 2002	(1,435,687)
Accrued FY 2002, Not Yet Paid in Cash	1,412,996
Cash Adjustments:	
Unrecorded Activity FY 2001	13,823
Prepaid Items	(10,779)
Materials and Supplies Inventory	(25,950)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(24,254)
Budget Basis	(\$1,865,179)

Note 6 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 6 - Deposits and Investments (continued)

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

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

At fiscal year end, the School District had \$867 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

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

At fiscal year end, the carrying amount of the School District's deposits was \$1,584,292 and the bank balance was \$1,783,621. Of the bank balance, \$100,456 was covered by federal depository insurance and \$1,683,165 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2002, the fair value of funds on deposit with STAR Ohio was \$1,445,852.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 6 - Deposits and Investments (continued)

A reconciliation between the classification of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$3,031,011	\$0
Cash on Hand	(867)	0
Investments:		
STAR Ohio	(1,445,852)	1,445,852
GASB Statement No. 3	\$1,584,292	\$1,445,852

Note 7 - Receivables

Receivables at June 30, 2002, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	\$28,188
Other Governmental Funds	
Title VI-B	24,095
Title I	655
Title VI	6,396
Class Reduction	6,973
Total Other Governmental Funds	38,119
Total Intergovernmental Receivables	\$66,307

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.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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 and public utility property tax revenues received in calendar year 2002 represent the collection of calendar year 2001 taxes. Real property taxes received in calendar year 2002 were levied after April 1, 2001, on the assessed values as of January 1, 2001, 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 real and tangible personal property tax revenues received in calendar year 2002 were levied after April 1, 2001, on the assessed values as of December 31, 2000, the lien date. 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. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2002 (other than public utility property) represent the collection of calendar year 2002 taxes. Tangible personal property taxes received in calendar year 2002 were levied after April 1, 2001, on the value as of December 31, 2001. Tangible personal property is currently assessed at 25 percent of true value. 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. This year the settlement was delayed beyond fiscal year end.

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 County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2002, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations and is reflected as revenue at fiscal year end. The receivable is offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2002, was \$487,197 in the General Fund, \$4,631 in the Classroom Facilities special revenue fund, and \$76,154 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2001, was \$377,518 in the General Fund, \$4,368 in the Classroom Facilities special revenue fund, and \$77,492 in the Bond Retirement debt service fund.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 9 - Property Taxes (continued)

The late tax settlement made by the Counties for fiscal year 2002 was \$20,075 in the General Fund, \$166 in the Classroom Facilities special revenue fund, and \$3,162 in the Bond Retirement debt service fund. For fiscal year 2001, these amounts were \$28,918 in the General Fund, \$316 in the Classroom Facilities special revenue fund, and \$5,955 in the Bond Retirement debt service fund.

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

The assessed values upon which the fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$99,683,290	86.87%	\$103,320,260	85.49%
Industrial/Commercial	7,335,370	6.39	9,181,310	7.60
Public Utility	5,116,170	4.46	5,165,120	4.27
Tangible Personal	2,617,789	2.28	3,191,330	2.64
Total Assessed Value	<u>\$114,752,619</u>	<u>100.00%</u>	<u>\$120,858,020</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$23.35		\$22.85	

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$135,673	\$0	\$0	\$135,673
Construction in Progress	306,388	0	(306,388)	0
Total Nondepreciable Capital Assets	<u>442,061</u>	<u>0</u>	<u>(306,388)</u>	<u>135,673</u>
Depreciable Capital Assets				
Land Improvements	4,366	227,182	0	231,548
Buildings and Building Improvements	11,638,914	1,698,923	(38,701)	13,299,136
Furniture, Fixtures, and Equipment	769,312	253,289	(275,707)	746,894
Vehicles	1,269,353	124,934	(25,500)	1,368,787
Total Depreciable Capital Assets	<u>13,681,945</u>	<u>2,304,328</u>	<u>(339,908)</u>	<u>15,646,365</u>

(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 10 - Capital Assets (continued)

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Less Accumulated Depreciation				
Land Improvements	(\$4,311)	(\$685)	\$0	(\$4,996)
Buildings and Building Improvements	(852,390)	(120,367)	38,701	(934,056)
Furniture, Fixtures, and Equipment	(546,743)	(49,473)	275,707	(320,509)
Vehicles	(689,219)	(104,459)	25,500	(768,178)
Total Accumulated Depreciation	<u>(2,092,663)</u>	<u>(274,984)</u>	<u>339,908</u>	<u>(2,027,739)</u>
Depreciable Capital Assets, Net	<u>11,589,282</u>	<u>2,029,344</u>	<u>0</u>	<u>13,618,626</u>
Governmental Activities Capital Assets, Net	<u>\$12,031,343</u>	<u>\$2,029,344</u>	<u>(\$306,388)</u>	<u>\$13,754,299</u>

During fiscal year 2002, the School District moved \$306,388 from construction in progress to buildings and building improvements.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$94,329
Special	9,065
Vocational	1,957
Support Services:	
Pupils	1,175
Instructional Staff	11,713
Administration	9,385
Fiscal	171
Operation and Maintenance of Plant	17,339
Pupil Transportation	105,136
Central	490
Non-Instructional Services	11,559
Extracurricular Activities	12,665
Total Depreciation Expense	<u>\$274,984</u>

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted for the following insurance coverage.

Coverage provided by Indiana Insurance is as follows:

Buildings and Contents - replacement cost (\$500 deductible)	\$32,035,539
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Coverage provided by Nationwide Insurance is as follows:

Automobile Liability (\$100 deductible)	2,000,000
Uninsured Motorists	2,000,000

Coverage provided by Ohio School Plan is as follows:

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

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 2002, 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 2002, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 12 - Defined Benefit Pension Plans

A. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$491,597, \$455,146, and \$257,804, respectively; 82 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$88,676, is recorded as a liability.

B. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$87,143, \$59,770, and \$66,951, respectively; 45 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$48,092, is recorded as a liability.

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, 2002, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$232,862.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$168,251 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 14 - Other Employee Benefits

A. Compensated Absences

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

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

B. Health Care Benefits

The School District offers life insurance and accidental death and dismemberment insurance to all employees through Medical Life Insurance Company. The School District offers employee medical/surgical benefits through United Health Care of Ohio or Anthem Blue Access. 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 15 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
Jr. High Construction Bonds FY 1980 9.125%	\$300,000	\$0	\$100,000	\$200,000	\$100,000
School Facilities Construction and Improvement Bonds FY 1997 5.875%	2,400,000	0	65,000	2,335,000	70,000
Energy Conservation Loan FY 2002 4.850%	0	350,000	54,896	295,104	113,817
Total General Long-Term Obligations	2,700,000	350,000	219,896	2,830,104	283,817
Compensated Absences Payable	659,211	121,840	67,708	713,343	24,158
Total Governmental Activities Long-Term Obligations	\$3,359,211	\$471,840	\$287,604	\$3,543,447	\$307,975

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 15 - Long-Term Obligations (continued)

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

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

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

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 15 - Long-Term Obligations (continued)

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

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

The School District's overall debt margin was \$8,342,222 with an unvoted debt margin of \$120,858 at June 30, 2002.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2002, were as follows:

Fiscal Year Ending	Principal	Interest	Total
2003	\$283,817	\$164,112	\$447,929
2004	294,404	144,777	439,181
2005	141,883	129,413	271,296
2006	85,000	122,653	207,653
2007	95,000	116,916	211,916
2008-2012	715,000	562,928	1,277,928
2013-2017	850,000	237,938	1,087,938
2018-2019	365,000	20,122	385,122
Totals	\$2,830,104	\$1,498,859	\$4,328,963

Note 16 - Set Asides

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2002, only the unspent portion of certain workers' compensation refunds continues to be set aside.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 16 - Set Asides (continued)

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2002.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2001	(\$25,619)	\$72,746	\$44,467
Current Year Set Aside Requirement	210,911	210,911	0
Qualifying Expenditures	(58,017)	(283,657)	0
Balance June 30, 2002	\$127,275	\$0	\$44,467

Note 17 - Interfund Transfers

During fiscal year 2002, the General Fund made transfers to other governmental funds, in the amount of \$245,000 to provide resources to begin the energy conservation project and to subsidize activities of other funds.

Note 18 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2002, the School District paid \$58,694 to TRECA for various services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

B. Tri-Rivers Joint Vocational School

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

Note 18 - 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 Pat Davies, who serves as Treasurer, P.O. Box 278, Marengo, Ohio 43334.

D. North Central Ohio Special Education Regional Resource Center

The North Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-six member board including the superintendent from the participating school districts. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from Patricia Lyons, Knox County Educational Service Center, 106 East High Street, Mt. Vernon, Ohio 43050.

E. North Central Regional Professional Development Center

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

Note 19 - Insurance Pools

A. Ohio School Plan

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

Note 19 - Insurance Pools (continued)

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

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

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

Note 20 - Related Organization

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

Note 21 - State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Note 22 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 22 - Contingencies (continued)

B. Litigation

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

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HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED June 30, 2002

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$54,526	\$0	\$53,024
National School Lunch Program	03/04-PU-01/02	10.555	119,799	0	119,799	0
Total U.S. Department of Agriculture - Nutrition Cluster			119,799	54,526	119,799	53,024
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2001/2002	84.010	165,749	0	171,749	0
Special Education Grants to States	6BSF-2001/2002	84.027	82,566	0	74,574	0
Safe and Drug-Free Schools and Communities State Grants	DRS1-2001/2002	84.186	6,837	0	9,535	0
Goals 2000 State and Local Education Systematic Improvement Grants	G2S2-2001	84.276	0	0	8,795	0
Eisenhower Professional Development State Grants	MSS1-2001/2002	84.281	8,732	0	7,009	0
Innovative Educational Program Strategies	C2S1-2002	84.298	2,613	0	2,063	0
Technology Literacy Challenge Fund Grants	R5	84.318	200,000	0	197,770	0
Comprehensive School Reform Demonstration	RFS1-2001	84.332	100,000	0	136,313	0
Class Size Reduction	CRS1-2001/2002	84.340	34,395	0	32,852	0
Total U.S. Department of Education			600,892	0	640,660	0
Totals			720,691	54,526	760,459	53,024

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

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS
RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with state grants. It is assumed federal monies are expended first. At June 3, 2002, the District had no significant food commodities in inventory.



Auditor of State Betty Montgomery

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

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

We have audited the basic financial statements of the Highland Local School District, Morrow County, Ohio (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 18, 2003, in which we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10659-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of District in a separate letter dated February 18, 2003.

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www.auditor.state.oh.us

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

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

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

BETTY MONTOMERY
Auditor of State

February 18, 2003



**Auditor of State
Betty Montgomery**

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

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

Compliance

We have audited the compliance of Highland Local School District, Morrow County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



BETTY MONTGOMERY
Auditor of State

February 18, 2003

**HIGHLAND SCHOOL DISTRICT
MORROW COUNTY**

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

JUNE 30, 2002

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Technology Literacy Challenge Fund Grants – CFDA #84.318 Goals 2000 Continuous Improvement Plan – CFDA #84.276
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

HIGHLAND SCHOOL DISTRICT
MORROW COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505

JUNE 30, 2002
(continued)

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

Finding Number	2002-10659-001
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Ohio Rev. Code Section 5705.10 states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit balance in any fund indicates that the money from another fund or funds has been used to pay the obligations of the fund or funds that carry the deficit balance.

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

Fund	Range of Negative Fund Balances
Enterprise – Food Service Fund	(\$25,995) - (\$56,522)
Special Revenue Fund – Title I	(\$7,114) - (\$11,720)
Special Revenue Fund - Ohio School Net Technology Learning Center Funds	(\$3,435) - (\$82,805)

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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HIGHLAND LOCAL SCHOOL DISTRICT

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 10, 2003**