



Dave Yost • Auditor of State



**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, as of June 30, 2015, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Also discussed in Note 3 to the financial statements, the District has changed its accounting basis from cash accounting basis to accounting principles generally accepted in the United States of America. The District has revised its financial presentation to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Award Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 21, 2016

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Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

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The discussion and analysis of Highland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

### **Highlights**

Highlights for fiscal year 2015 were as follows:

- Net position increased \$113,056, or less than 1 percent.
- General revenues were \$16,606,081, or 86 percent of total revenues, and reflect the School District's dependence on property taxes, income taxes, and unrestricted state entitlements.
- The contract agreement with the Highland Education Association (the teacher's union) was negotiated for a three-year term which will expire in July 2016. The contract with the non-teaching staff was negotiated for a three-year period and expired in June 2015. The Board of Education approved a new contract in August 2015 for a three-year period which will expire in June 2018.

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

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

### **Reporting the School District as a Whole**

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2015. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

Highland Local School District  
Management's Discussion and Analysis  
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Unaudited

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

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

**Reporting the School District's Most Significant Funds**

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. Highland Local School District has four major funds, the General Fund, the Bond Retirement Fund, the Permanent Improvement Fund, and the Ohio School Facilities Commission Fund.

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

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

**The School District as a Whole**

Table 1 provides a summary of the School District's net position for fiscal year 2015 and fiscal year 2014:

Table 1 Net Position			
	2015	2014	Change
<u>Assets:</u>			
Current and Other Assets	\$15,895,241	\$15,925,224	(\$29,983)
Capital Assets, Net	57,045,055	57,500,019	(454,964)
Total Assets	72,940,296	73,425,243	(484,947)
			(continued)

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

Table 1 Net Position (continued)			
	2015	2014	Change
<u>Deferred Outflows of Resources</u>			
Pension	\$1,474,146	\$1,234,854	\$239,292
<u>Liabilities:</u>			
Current and Other Liabilities	2,260,201	2,152,903	(107,298)
Long-Term Liabilities			
Pension	20,565,420	24,435,513	3,870,093
Other Amounts	15,961,078	16,342,262	381,184
Total Liabilities	38,786,699	42,930,678	4,143,979
<u>Deferred Inflows of Resources</u>			
Pension	3,717,857	0	(3,717,857)
Other Amounts	3,484,067	3,416,656	(67,411)
Total Deferred Inflows of Resources	7,201,924	3,416,656	(3,785,268)
<u>Net Position:</u>			
Net Investment in Capital Assets	42,946,877	43,128,841	(181,964)
Restricted	1,401,602	2,849,060	(1,447,458)
Unrestricted (Deficit)	(15,922,660)	(17,665,138)	1,742,478
Total Net Position	\$28,425,819	\$28,312,763	\$113,056

During fiscal year 2015, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions", which significantly revises accounting for pension costs and liabilities. For reasons discussed below, end users of these financial statements will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals the School District's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Highland Local School District  
Management's Discussion and Analysis  
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GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer as to the employee because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or in the case of compensated absences (i.e. vacation and sick leave) are satisfied through paid time off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability but are outside the control of the School District. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

As a result of implementing GASB Statement No. 68, the School District is reporting a net pension liability and deferred outflows/inflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$51,513,422 to \$28,312,763.

As noted previously, the change in net position from the prior fiscal year was not significant, less than 1 percent, and with the exception of pension related activity, the above table demonstrates there were few changes of note from the prior fiscal year. The decrease in restricted net position is generally due to the return of unused Ohio School Facilities Commission resources to the State upon project completion.

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Table 2 reflects the changes in net position for fiscal year 2015 and fiscal year 2014.

Table 2  
Changes in Net Position

	Governmental Activities		
	2015	2014	Change
Revenues:			
Program Revenues			
Charges for Services	\$536,647	\$919,688	(\$383,041)
Operating Grants and Contributions	2,074,348	1,984,395	89,953
Total Program Revenues	<u>2,610,995</u>	<u>2,904,083</u>	<u>(293,088)</u>
General Revenues			
Property Taxes Levied for General Purposes	4,009,029	3,584,926	424,103
Property Taxes Levied for Classroom Facilities Purposes	73,925	72,188	1,737
Property Taxes Levied for Debt Service Purposes	928,144	830,195	97,949
Property Taxes Levied for Permanent Improvement Purposes	126,564	113,208	13,356
Income Taxes Levied for General Purposes	1,056,109	1,042,823	13,286
Grants and Entitlements	9,726,565	9,799,416	(72,851)
Interest	29,860	27,462	2,398
Gifts and Donations	1,439	3,141	(1,702)
Miscellaneous	654,446	447,629	206,817
Total General Revenues	<u>16,606,081</u>	<u>15,920,988</u>	<u>685,093</u>
Total Revenues	<u>19,217,076</u>	<u>18,825,071</u>	<u>392,005</u>
<u>Expenses:</u>			
Instruction:			
Regular	7,685,490	7,475,190	(210,300)
Special	2,454,407	2,504,530	50,123
Vocational	304,471	313,433	8,962
Support Services:			
Pupils	983,989	1,038,719	54,730
Instructional Staff	181,846	290,582	108,736
Board of Education	262,238	269,125	6,887
Administration	1,135,807	1,183,395	47,588
Fiscal	413,295	417,451	4,156
Operation and Maintenance of Plant	1,707,808	1,600,538	(107,270)
Pupil Transportation	1,383,702	1,418,025	34,323
Central	23	169	146
Non-Instructional Services	785,663	845,874	60,211
Extracurricular Activities	447,322	463,380	16,058
Interest and Fiscal Charges	838,313	829,947	(8,366)
Total Expenses	<u>18,584,374</u>	<u>18,650,358</u>	<u>65,984</u>
Increase in Net Position Before Special Item	632,702	174,713	457,989
Special Item	<u>(519,646)</u>	<u>0</u>	<u>(519,646)</u>
Increase in Net Position	113,056	174,713	(61,657)
Net Position at Beginning of Year	<u>28,312,763</u>	n/a	
Net Position at End of Year	<u>\$28,425,819</u>	<u>\$28,312,763</u>	<u>\$113,056</u>

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The information necessary to restate the fiscal year 2014 beginning balance and the fiscal year 2014 pension expense amounts for the effects of the initial implementation of GASB Statement No. 68 is not available. Therefore, fiscal year 2014 functional expenses still include pension expense of \$1,234,854 computed under GASB Statement No. 27. GASB Statement No. 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB Statement No. 68, pension expense represents additional amounts earned adjusted by deferred outflows/inflows. The contractually required contribution is no longer a component of pension expense. Under GASB Statement No. 68, the fiscal year 2015 statements report pension expense of \$888,900. Consequently, in order to compare fiscal year 2015 total program expenses to fiscal year 2014, the following adjustments are needed.

Total 2015 Program Expenses under GASB Statement No. 68	\$19,104,020
Pension Expense under GASB Statement No. 68	(888,900)
2015 Contractually Required Contribution	1,280,428
Adjusted 2015 Program Expenses	19,495,548
Total 2014 Program Expenses under GASB Statement No. 27	(18,650,358)
Increase in Program Expenses not Related to Pension	\$845,190

In total, there was a 2 percent increase in revenues. Program revenues decreased due to a reduction in excess costs charges (charges for services); however, this was partially offset by an increase in operating grants and contributions due to additional restricted State Foundation resources. The increase in general revenues was primarily due to an increase in property tax revenue. Property taxes are based on the assessed valuation of property which increased \$22 million from 2014 to 2015.

Expenses increased 4 percent from the prior fiscal year. Program expenses for instruction represent 56 percent of total expenses. When combined with the support services related to instruction, such as pupils, instructional staff, operation and maintenance, and pupil transportation, 80 percent of all School District expenses are related to the primary function of delivering education and maintaining facilities.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Instruction:				
Regular	\$7,685,490	\$7,475,190	\$7,517,531	\$7,287,255
Special	2,454,407	2,504,530	1,003,023	704,769
Vocational	304,471	313,433	156,591	256,456

(continued)

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

Table 3  
Governmental Activities  
(continued)

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Support Services:				
Pupils	\$983,989	\$1,038,719	\$983,989	\$1,038,719
Instructional Staff	181,846	290,582	181,846	290,582
Board of Education	262,238	269,125	262,238	269,125
Administration	1,135,807	1,183,395	1,135,807	1,183,395
Fiscal	413,295	417,451	413,295	417,451
Operation and Maintenance of Plant	1,707,808	1,600,538	1,707,808	1,600,538
Pupil Transportation	1,383,702	1,418,025	1,383,702	1,418,025
Central	23	169	23	169
Non-Instructional Services	785,663	845,874	105,100	142,210
Extracurricular Activities	447,322	463,380	284,113	307,634
Interest and Fiscal Charges	838,313	829,947	838,313	829,947
Total Expenses	<u>\$18,584,374</u>	<u>\$18,650,358</u>	<u>\$15,973,379</u>	<u>\$15,746,275</u>

Program revenues provided for 14 percent of the costs of services during fiscal year 2015 (same from the prior fiscal year). Traditional support from federal title grants provided for much of the program revenues for the School District. General revenues such as local property taxes, income taxes, and unrestricted State entitlements (primarily State Foundation funding) provided for the remaining 86 percent of all program costs during the fiscal year.

The special instruction program received 57 percent of its funding through state and federal grants restricted for special education. The non-instructional services program which includes grants, food subsidies, and cafeteria sales received 87 percent of its funding through program revenues in fiscal year 2015. Revenues from extracurricular activities, including athletic events, provided for 36 percent of the costs of these activities.

**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund represents the main operating fund for the day-in day-out operations of the School District. During fiscal year 2015, fund balance in the General Fund increased \$805,641 (17 percent) despite a 6 percent increase in expenditures and only a 2 percent increase in revenues.

Fund balance increased in the Bond Retirement debt service fund as property taxes and related revenues were in excess of amounts needed for debt payments.

The Permanent Improvement capital projects fund increased due to the Ohio School Facilities Commission Fund transferring resources into this fund for future capital improvements.

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

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The Ohio School Facilities Commission capital projects fund accounts for resources received from the State portion of the construction and renovation project. The decrease in fund balance represents returning unneeded resources to the State.

**General Fund Budgeting Highlights**

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

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2015, the School District had \$57,045,055 invested in capital assets (net of accumulated depreciation). Additions for fiscal year 2015 included the purchase of land, ongoing construction, various equipment acquisitions, and buses. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

**Debt**

At fiscal year end, the School District had general obligation bonds outstanding, in the amount of \$15,059,269, for school construction. The School District's long-term obligations also include the net pension liability, compensated absences, and capital leases. For further information regarding the School District's long-term obligations, refer to Note 17 to the basic financial statements.

**Current Issues**

Highland Local School District is located in southern Morrow County and includes a small portion of northeastern Delaware County (Porter Township). The School District is primarily rural farming and the tax base is primarily residential. Interstate 71 is within easy access to the School District residents and is an easy commute for many traveling to Columbus. The School District's currently serves 1,861 students.

Property values within the School District have historically increased - which has generally supported student enrolment growth. Since 2008, however, overall property values have stayed fairly constant with slight declines in residential values being offset by increases to the agricultural values. The School District still maintains one of the lowest overall property tax rates in the State of 24.5 mills, which includes 4.4 mills for bond retirement and .6 mills for permanent improvements.

The forecasted trend for the School District largely depends on the State's funding system. With as much as two-thirds of the School District's operational monies coming from the State, a conservative approach continues for all spending. Although the State's economic condition appears to be improving, it is still unclear if school districts will realize a stable and predictable funding system long-term.

Highland Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

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The School District recently took advantage of the favorable interest rates in the municipal bond market and successfully refinanced \$8.465 million of outstanding debt. The refinanced bonds that had carried an average coupon of 5.43 percent now carry an all in interest cost of 3.51 percent over the remaining twenty-two years. The resulting net present value of the reduction in debt service represents a savings of over 12.5 percent of the par amount of refunded bonds, or approximately \$1.5 million in savings.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jon Mason, Treasurer, Highland Local School District, 6506 State Route 229, P.O. Box 98, Sparta, Ohio 43350.

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Highland Local School District  
Statement of Net Position  
June 30, 2015

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$9,597,051
Accounts Receivable	41,735
Accrued Interest Receivable	3,426
Intergovernmental Receivable	344,295
Income Taxes Receivable	431,695
Prepaid Items	7,972
Inventory Held for Resale	14,098
Materials and Supplies Inventory	51,441
Property Taxes Receivable	5,403,528
Nondepreciable Capital Assets	848,463
Depreciable Capital Assets, Net	56,196,592
Total Assets	72,940,296
 <u>Deferred Outflows of Resources:</u>	
Pension	1,474,146
 <u>Liabilities:</u>	
Accounts Payable	69,336
Accrued Wages and Benefits Payable	1,637,860
Matured Compensated Absences Payable	150,362
Intergovernmental Payable	341,619
Accrued Interest Payable	61,024
Long-Term Liabilities:	
Due Within One Year	349,600
Due in More Than One Year	
Net Pension Liability	20,565,420
Other Amounts Due in More than One Year	15,611,478
Total Liabilities	38,786,699
 <u>Deferred Inflows of Resources:</u>	
Property Taxes	3,484,067
Pension	3,717,857
Total Deferred Inflows of Resources	7,201,924
 <u>Net Position:</u>	
Net Investment in Capital Assets	42,946,877
Restricted For:	
Debt Service	183,851
Capital Projects	117,367
Classroom Facilities	737,963
Other Purposes	362,421
Unrestricted (Deficit)	(15,922,660)
Total Net Position	\$28,425,819

See Accompanying Notes to Basic Financial Statements

Highland Local School District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2015

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<u>Governmental Activities:</u>			
Instruction:			
Regular	\$7,685,490	\$41,633	\$126,326
Special	2,454,407	42,720	1,408,664
Vocational	304,471	0	147,880
Support Services:			
Pupils	983,989	0	0
Instructional Staff	181,846	0	0
Board of Education	262,238	0	0
Administration	1,135,807	0	0
Fiscal	413,295	0	0
Operation and Maintenance of Plant	1,707,808	0	0
Pupil Transportation	1,383,702	0	0
Central	23	0	0
Non-Instructional Services	785,663	289,085	391,478
Extracurricular Activities	447,322	163,209	0
Interest and Fiscal Charges	838,313	0	0
Total Governmental Activities	<u>\$18,584,374</u>	<u>\$536,647</u>	<u>\$2,074,348</u>

General Revenues:

Property Taxes Levied for General Purposes  
Property Taxes Levied for Classroom Facilities Purposes  
Property Taxes Levied for Debt Service Purposes  
Property Taxes Levied for Permanent Improvement Purposes  
Income Taxes Levied for General Purposes  
Grants and Entitlements not Restricted to Specific Programs  
Interest  
Gifts and Donations  
Miscellaneous  
Total General Revenues

Special Item  
Total General Revenues and Special Item

Change in Net Position

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

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue  
and Change in Net Position

Governmental  
Activities

	(\$7,517,531)
	(1,003,023)
	(156,591)
	(983,989)
	(181,846)
	(262,238)
	(1,135,807)
	(413,295)
	(1,707,808)
	(1,383,702)
	(23)
	(105,100)
	(284,113)
	(838,313)
	<u>(15,973,379)</u>

	4,009,029
	73,925
	928,144
	126,564
	1,056,109
	9,726,565
	29,860
	1,439
	654,446
	<u>16,606,081</u>

	(519,646)
	<u>16,086,435</u>

	113,056
	28,312,763
	<u>\$28,425,819</u>

Highland Local School District  
Balance Sheet  
Governmental Funds  
June 30, 2015

	General	Bond Retirement	Permanent Improvement	Ohio School Facilities Commission
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,790,552	\$450,387	\$2,090,814	\$54,172
Accounts Receivable	41,735	0	0	0
Accrued Interest Receivable	493	0	0	2,933
Intergovernmental Receivable	75,737	0	0	0
Income Taxes Receivable	431,695	0	0	0
Interfund Receivable	177,225	0	0	0
Prepaid Items	7,972	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	48,576	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	2,170	0	0	0
Property Taxes Receivable	4,249,375	946,730	128,553	0
Total Assets	<u>\$10,825,530</u>	<u>\$1,397,117</u>	<u>\$2,219,367</u>	<u>\$57,105</u>
<u>Liabilities:</u>				
Accounts Payable	\$67,844	\$0	\$0	\$0
Accrued Wages and Benefits Payable	1,479,677	0	0	0
Matured Compensated Absences Payable	150,362	0	0	0
Intergovernmental Payable	328,473	0	0	0
Interfund Payable	0	0	0	0
Total Liabilities	<u>2,026,356</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Deferred Inflows of Resources:</u>				
Property Taxes	2,751,257	599,797	81,246	0
Unavailable Revenue	471,522	71,101	9,695	0
Total Deferred Inflows of Resources	<u>3,222,779</u>	<u>670,898</u>	<u>90,941</u>	<u>0</u>
<u>Fund Balances:</u>				
Nonspendable	56,548	0	0	0
Restricted	2,170	726,219	0	57,105
Committed	0	0	2,128,426	0
Assigned	197,570	0	0	0
Unassigned (Deficit)	5,320,107	0	0	0
Total Fund Balances	<u>5,576,395</u>	<u>726,219</u>	<u>2,128,426</u>	<u>57,105</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$10,825,530</u>	<u>\$1,397,117</u>	<u>\$2,219,367</u>	<u>\$57,105</u>

See Accompanying Notes to the Basic Financial Statements

<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$1,208,956	\$9,594,881
0	41,735
0	3,426
268,558	344,295
0	431,695
0	177,225
0	7,972
14,098	14,098
2,865	51,441
0	2,170
78,870	5,403,528
<u>\$1,573,347</u>	<u>\$16,072,466</u>
\$1,492	\$69,336
158,183	1,637,860
0	150,362
13,146	341,619
177,225	177,225
<u>350,046</u>	<u>2,376,402</u>
51,767	3,484,067
5,771	558,089
<u>57,538</u>	<u>4,042,156</u>
2,865	59,413
1,177,650	1,963,144
0	2,128,426
0	197,570
(14,752)	5,305,355
<u>1,165,763</u>	<u>9,653,908</u>
<u>\$1,573,347</u>	<u>\$16,072,466</u>

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Highland Local School District  
 Reconciliation of Total Governmental Fund Balances  
 to Net Position of Governmental Activities  
 June 30, 2015

Total Governmental Fund Balances		\$9,653,908
<p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		57,045,055
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		
Accounts Receivable	27,283	
Intergovernmental Receivable	75,737	
Income Taxes Receivable	61,478	
Delinquent Property Taxes Receivable	393,591	
		558,089
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Accrued Interest Payable	(61,024)	
General Obligation Bonds Payable	(15,059,269)	
Compensated Absences Payable	(818,940)	
Capital Leases Payable	(82,869)	
		(16,022,102)
<p>The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.</p>		
Deferred Outflows - Pension	1,474,146	
Deferred Inflows - Pension	(3,717,857)	
Net Pension Liability	(20,565,420)	
		(22,809,131)
Net Position of Governmental Activities		\$28,425,819

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, 2015

	General	Bond Retirement	Permanent Improvement	Ohio School Facilities Commission
<u>Revenues:</u>				
Property Taxes	\$4,066,251	\$941,395	\$128,371	\$0
Income Taxes	1,052,813	0	0	0
Intergovernmental	10,327,077	123,896	16,895	7,025
Interest	28,461	0	0	1,399
Tuition and Fees	80,014	0	0	0
Extracurricular Activities	20,174	0	0	0
Charges for Services	33,688	0	0	0
Gifts and Donations	1,439	0	0	0
Miscellaneous	571,009	0	0	0
Total Revenues	<u>16,180,926</u>	<u>1,065,291</u>	<u>145,266</u>	<u>8,424</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	7,345,531	0	0	0
Special	1,575,164	0	0	0
Vocational	279,147	0	0	0
Support Services:				
Pupils	1,022,058	0	0	0
Instructional Staff	90,434	0	0	0
Board of Education	262,238	0	0	0
Administration	1,145,463	0	0	0
Fiscal	386,232	23,629	3,222	0
Operation and Maintenance of Plant	1,530,612	0	269,400	0
Pupil Transportation	1,420,899	0	0	0
Central	0	0	0	0
Non-Instructional Services	0	0	0	0
Extracurricular Activities	232,349	0	0	0
Capital Outlay	98,858	0	0	132,356
Debt Service:				
Principal Retirement	0	195,000	81,009	0
Interest and Fiscal Charges	0	735,938	3,738	0
Total Expenditures	<u>15,388,985</u>	<u>954,567</u>	<u>357,369</u>	<u>132,356</u>
Excess of Revenues Over (Under) Expenditures	<u>791,941</u>	<u>110,724</u>	<u>(212,103)</u>	<u>(123,932)</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	13,700	0	0	0
Transfers In	0	0	684,570	0
Transfers Out	0	0	0	(684,570)
Total Other Financing Sources (Uses)	<u>13,700</u>	<u>0</u>	<u>684,570</u>	<u>(684,570)</u>
Increase before Special Item	805,641	110,724	472,467	(808,502)
Special Item	<u>0</u>	<u>0</u>	<u>0</u>	<u>(519,646)</u>
Changes in Fund Balances	805,641	110,724	472,467	(1,328,148)
Fund Balances at Beginning of Year - Restated (Note 3)	<u>4,770,754</u>	<u>615,495</u>	<u>1,655,959</u>	<u>1,385,253</u>
Fund Balances at End of Year	<u><u>\$5,576,395</u></u>	<u><u>\$726,219</u></u>	<u><u>\$2,128,426</u></u>	<u><u>\$57,105</u></u>

See Accompanying Notes to the Basic Financial Statements

<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$75,597	\$5,211,614
0	1,052,813
1,354,216	11,829,109
0	29,860
0	80,014
163,209	183,383
319,985	353,673
0	1,439
0	571,009
<u>1,913,007</u>	<u>19,312,914</u>
100,884	7,446,415
917,307	2,492,471
0	279,147
0	1,022,058
54,519	144,953
0	262,238
0	1,145,463
1,935	415,018
78,224	1,878,236
0	1,420,899
23	23
705,410	705,410
133,496	365,845
83,656	314,870
0	276,009
0	739,676
<u>2,075,454</u>	<u>18,908,731</u>
<u>(162,447)</u>	<u>404,183</u>
0	13,700
0	684,570
0	(684,570)
<u>0</u>	<u>13,700</u>
(162,447)	417,883
<u>0</u>	<u>(519,646)</u>
(162,447)	(101,763)
1,328,210	9,755,671
<u>\$1,165,763</u>	<u>\$9,653,908</u>

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, 2015

Changes in Fund Balances - Total Governmental Funds (\$101,763)

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

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

Capital Outlay - Nondepreciable Capital Assets	194,904	
Capital Outlay - Depreciable Capital Assets	509,173	
Depreciation	<u>(1,148,914)</u>	(444,837)

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

Proceeds from Sale of Capital Assets	(13,700)	
Gain on Disposal of Capital Assets	7,700	
Loss on Disposal of Capital Assets	<u>(4,127)</u>	(10,127)

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

Delinquent Property Taxes	(73,952)	
Income Taxes	3,296	
Intergovernmental	(48,370)	
Tuition and Fees	4,339	
Charges for Services	(64,588)	
Miscellaneous	<u>75,737</u>	(103,538)

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

General Obligation Bonds	195,000	
Capital Leases	<u>81,009</u>	276,009

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

Accrued Interest Payable	609	
Annual Accretion on Capital Appreciation Bonds	(103,805)	
Amortization of Premium	7,568	
Amortization of Discount	<u>(3,009)</u>	(98,637)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 204,421

Except for amounts reported as dererred outflow/inflows, changes in net pension liability are reported as pension expense on the statement of activities. (888,900)

Contractually required contributions are reported as expenditures in governmental funds, however, the statement of net position reports these as deferred outflows. 1,280,428

Change in Net Position of Governmental Activities \$113,056

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, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Over (Under)
<u>Revenues:</u>				
Property Taxes	\$3,545,000	\$3,545,000	\$3,769,078	\$224,078
Income Taxes	1,050,000	1,050,000	1,072,668	22,668
Intergovernmental	10,249,000	10,309,000	10,327,077	18,077
Interest	10,000	10,000	28,359	18,359
Tuition and Fees	95,500	55,500	79,362	23,862
Extracurricular Activities	15,000	19,000	20,174	1,174
Charges for Services	0	0	33,688	33,688
Gifts and Donations	2,400	2,400	1,439	(961)
Miscellaneous	77,200	59,800	97,869	38,069
Total Revenues	<u>15,044,100</u>	<u>15,050,700</u>	<u>15,429,714</u>	<u>379,014</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	7,407,764	7,416,089	7,283,006	133,083
Special	1,634,007	1,634,007	1,583,552	50,455
Vocational	271,227	271,227	284,064	(12,837)
Support Services:				
Pupils	981,300	981,300	962,416	18,884
Instructional Staff	128,210	128,210	113,197	15,013
Board of Education	306,758	306,758	275,396	31,362
Administration	1,172,680	1,175,781	1,144,962	30,819
Fiscal	408,300	408,300	388,185	20,115
Operation and Maintenance of Plant	1,563,475	1,563,475	1,519,556	43,919
Pupil Transportation	1,409,533	1,409,533	1,442,163	(32,630)
Extracurricular Activities	233,500	233,500	233,935	(435)
Capital Outlay	0	300,000	214,254	85,746
Total Expenditures	<u>15,516,754</u>	<u>15,828,180</u>	<u>15,444,686</u>	<u>383,494</u>
Excess of Revenues Under Expenditures	(472,654)	(777,480)	(14,972)	762,508
<u>Other Financing Sources</u>				
Refund of Prior Year Expenditures	<u>215,000</u>	<u>400,000</u>	<u>350,951</u>	<u>(49,049)</u>
Changes in Fund Balance	(257,654)	(377,480)	335,979	713,459
Fund Balance at Beginning of Year	5,202,785	5,202,785	5,202,785	0
Prior Year Encumbrances Appropriated	82,391	82,391	82,391	0
Fund Balance at End of Year	<u>\$5,027,522</u>	<u>\$4,907,696</u>	<u>\$5,621,155</u>	<u>\$713,459</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2015

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$26,862	\$30,254
<u>Liabilities:</u>		
Undistributed Assets	0	\$2,314
Due to Students	0	27,940
Total Liabilities	0	\$30,254
<u>Net Position:</u>		
Held in Trust for Scholarships	\$26,862	

See Accompanying Notes to the Basic Financial Statements

Highland Local School District  
Statement of Change in Fiduciary Net Position  
Private Purpose Trust Fund  
For the Fiscal Year Ended June 30, 2015

Additions:

Gifts and Donations	\$6,909
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Deductions:

Non-Instructional Services	11,400
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Change in Net Position	(4,491)
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Net Position at Beginning of Year	31,353
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Net Position at End of Year	<u><u>\$26,862</u></u>
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See Accompanying Notes to the Basic Financial Statements

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Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**Note 1 - Description of the School District and Reporting Entity**

Highland Local School District (the “School District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established in 1960. The School District serves an area of approximately one hundred forty-four square miles and is located in Morrow and Delaware Counties. It is staffed by eighty-six classified employees, one hundred twenty-five certified teaching personnel, and sixteen administrative employees who provide services to 1,861 students and other community members. The School District currently operates an elementary school, 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 ensure 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, and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the School District. There are no component units of the Highland Local School District.

The School District participates in three jointly governed organizations, an insurance pool, and is associated with a related organization. These organizations are the Metropolitan Educational Technology Association, Tri-Rivers Joint Vocational School, Metropolitan Educational Council, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Selover Public Library. These organizations are presented in Notes 22, 23, and 24 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. Following are the more significant of the School District’s accounting policies.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**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 position 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 position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

Governmental Funds

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

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

Bond Retirement Fund - The Bond Retirement Fund is used to account for property taxes and related revenues restricted for the payment of principal and interest on general obligation bonds.

Permanent Improvement Fund - The Permanent Improvement Fund is used to account for the movement of inside millage of property taxes committed for the acquisition, construction, or improvement of capital facilities.

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

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. 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's private purpose trust fund accounts for college scholarships for students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities and payroll withholdings and deductions.

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

**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 position. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

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.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

**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 outflows and deferred inflows of resources, 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.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

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 Outflows/Inflows of Resources**

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 14 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources consists of property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes intergovernmental revenue including grants, income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 14 to the basic financial statements.

**Expenses/Expenditures**

On the accrual basis, expenses are recognized at the time they are incurred.

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

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

**E. Budgetary Process**

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

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

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

**F. Cash and Investments**

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

During fiscal year 2015, the School District invested in negotiable certificates of deposit, which are reported at fair value. Fair value is based on quoted market price.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2015 was \$28,461, which includes \$14,035 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.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies and donated and purchased food.

**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the General Fund include unexpended revenues restricted for bus purchases.

**J. Capital Assets**

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

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

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

Description	Useful Lives
Land Improvements	10 - 40 years
Buildings and Building Improvements	15 - 100 years
Furniture, Fixtures, and Equipment	5 - 40 years
Vehicles	5 - 15 years

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

**K. Interfund Assets/Liabilities**

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

**L. Compensated Absences**

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

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

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

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

**M. Accrued Liabilities and Long-Term Obligations**

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

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

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

**N. Unamortized Premiums and Discounts**

On government-wide financial statements, premiums and discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of bonds payable. Bond discounts are presented as a reduction of the face amount of bonds payable.

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

**O. Net Position**

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, music and athletic programs, and federal and state grants.

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

**P. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions.

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

**Q. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the pension plans, and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**R. Interfund Transactions**

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

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

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

**S. Special Items**

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

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

**T. 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 Basis of Accounting, Change in Accounting Principle, and Restatement of Fund Balance/Net Position**

**A. Change in Basis of Accounting**

For fiscal year 2015, the School District has prepared its financial statements in accordance with generally accepted accounting principles. In the prior year, the financial statements were prepared using another comprehensive basis of accounting (cash basis).

**B. Change in Accounting Principle**

For fiscal year 2015, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68". GASB Statement No. 68 established standards for measuring and recognizing pension liabilities, deferred outflows and deferred inflows of resources, and pension expenses/expenditures.

**C. Restatement of Fund Balance/Net Position**

The restatement due to the change in the basis of accounting and the change in accounting principle had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported.

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Ohio School Facilities Commission</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Fund Balance at June 30, 2014	\$5,285,176	\$408,481	\$1,627,730	\$1,379,295	\$1,234,526	\$9,935,208
Asset Accruals	4,548,433	908,981	124,360	5,958	402,284	5,990,016
Liability Accruals	<u>(5,062,855)</u>	<u>(701,967)</u>	<u>(96,131)</u>	<u>0</u>	<u>(308,600)</u>	<u>(6,169,553)</u>
Adjusted Fund Balance at June 30, 2014	<u>\$4,770,754</u>	<u>\$615,495</u>	<u>\$1,655,959</u>	<u>\$1,385,253</u>	<u>\$1,328,210</u>	<u>\$9,755,671</u>

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

**Note 3 - Change in Basis of Accounting, Change in Accounting Principle, and Restatement of Fund Balance/Net Position** (continued)

The restatement had the following effect on net position as it was previously reported.

	Governmental Activities
Net Position at June 30, 2014	\$9,935,208
Financial Statement Adjustments:	
Equity in Pooled Cash and Cash Equivalents	2,171
Accounts Receivable	23,369
Accrued Interest Receivable	4,178
Intergovernmental Receivable	396,088
Income Taxes Receivable	448,254
Prepaid Items	7,522
Inventory Held for Resale	15,581
Materials and Supplies Inventory	61,673
Property Taxes Receivable	5,031,180
Capital Assets	57,500,019
Accounts Payable	(85,617)
Accrued Wages and Benefits Payable	(1,597,210)
Matured Compensated Absences Payable	(15,901)
Intergovernmental Payable	(392,542)
Accrued Interest Payable	(61,633)
Long-Term Liabilities:	
Due Within One Year	(355,027)
Due in More Than One Year	(15,987,235)
Deferred Inflows of Resources - Property Taxes	(3,416,656)
Net Pension Liability	(24,435,513)
Deferred Outflows - Payments Subsequent to Measurement Date	1,234,854
Adjusted Net Position at June 30, 2014	\$28,312,763

**Note 4 - Compliance and Accountability**

**A. Accountability**

At June 30, 2015, the Title VI-B and Title II-A special revenue funds had deficit fund balances, in the amount of \$9,791 and \$4,961, respectively, resulting in 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, 2015, the Race to the Top special revenue fund had expenditures plus encumbrances in excess of appropriations, in the amount of \$917, and the Ohio School Facilities Commission capital projects fund had appropriations in excess of estimated resources and available balances, in the amount of \$6,000. The Treasurer will monitor budgetary transactions to ensure that expenditures are within amounts appropriated and appropriations are within amounts available.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

**Note 5 - Budgetary Basis of Accounting**

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

The major differences between the budget basis and the GAAP basis are as follows:

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

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

Changes in Fund Balance	
GAAP Basis	\$805,641
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2014, Received in Cash FY 2015	1,339,520
Accrued FY 2015, Not Yet Received in Cash	(1,753,481)
Expenditure Accruals:	
Accrued FY 2014, Paid in Cash FY 2015	(1,921,365)
Accrued FY 2015, Not Yet Paid in Cash	2,026,356
Prepaid Items	(450)
Materials and Supplies Inventory	11,325
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(171,567)
Budget Basis	\$335,979

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**Note 6 - Deposits and Investments**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

**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.

Investments

As of June 30, 2015, the fair value of funds invested in negotiable certificates of deposit was \$1,266,178.

	Fair Value	Maturity
Negotiable Certificates of Deposit	\$496,573	8/17/15
Negotiable Certificates of Deposit	249,029	4/29/16
Negotiable Certificates of Deposit	272,494	8/29/16
Negotiable Certificates of Deposit	248,082	12/23/16

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

The negotiable certificates of deposit are covered by FDIC insurance. The School District has no investment policy dealing with credit risk beyond the requirements of State statute.

The School District places no limit on the amount of its interim monies it may invest in a particular security. The School District's total portfolio of investments is negotiable certificates of deposit.

**Note 7 - Receivables**

Receivables at June 30, 2015, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, interfund, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except income taxes and property taxes, are expected to be collected within one year. Income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Fund	
General Fund	
School Employees Retirement System	\$75,737
	(continued)

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**Note 7 - Receivables** (continued)

	<u>Amount</u>
Governmental Activities (continued)	
Other Governmental Funds	
Food Service	\$30,381
Title VI-B	60,000
Title I	130,000
Title II-A	15,000
Title VI-B Rural Low Wealth	33,177
Total Other Governmental Funds	<u>268,558</u>
Total Intergovernmental Receivables	<u><u>\$344,295</u></u>

**Note 8 - Income Taxes**

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

**Note 9 - Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

The School District receives property taxes from Morrow and Delaware Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of June 30, 2015, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance at June 30, 2015, was \$1,191,094 in the General Fund, \$21,332 in the Classroom Facilities special revenue fund, \$275,832 in the Bond Retirement debt service fund, and \$37,612 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2014, was \$893,921 in the General Fund, \$17,817 in the Classroom Facilities special revenue fund, \$207,014 in the Bond Retirement debt service fund, and \$28,229 in the Permanent Improvement capital projects fund.

The assessed values upon which fiscal year 2015 taxes were collected are:

	2014 Second- Half Collections		2015 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$185,599,070	90.24%	\$207,281,870	90.88%
Industrial/Commercial	14,747,930	7.17	15,240,900	6.68
Public Utility	5,329,770	2.59	5,577,020	2.44
Total Assessed Value	<u>\$205,676,770</u>	<u>100.00%</u>	<u>\$228,099,790</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$24.50		\$24.50	

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance at 6/30/14	Additions	Reductions	Balance at 6/30/15
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$653,559	\$69,188	\$0	\$722,747
Construction in Progress	0	125,716	0	125,716
Total Nondepreciable Capital Assets	<u>653,559</u>	<u>194,904</u>	<u>0</u>	<u>848,463</u>
Depreciable Capital Assets				
Land Improvements	1,025,244	129,294	0	1,154,538
Buildings and Building Improvements	59,901,257	165,659	0	60,066,916
Furniture, Fixtures, and Equipment	1,209,524	36,126	0	1,245,650
Vehicles	2,032,040	178,094	(204,213)	2,005,921
Total Depreciable Capital Assets	<u>64,168,065</u>	<u>509,173</u>	<u>(204,213)</u>	<u>64,473,025</u>
Less Accumulated Depreciation				
Land Improvements	(162,067)	(30,193)	0	(192,260)
Buildings and Building Improvements	(5,374,024)	(908,433)	0	(6,282,457)
Furniture, Fixtures, and Equipment	(462,039)	(67,866)	0	(529,905)
Vehicles	(1,323,475)	(142,422)	194,086	(1,271,811)
Total Accumulated Depreciation	<u>(7,321,605)</u>	<u>(1,148,914)</u>	<u>194,086</u>	<u>(8,276,433)</u>
Depreciable Capital Assets, Net	<u>56,846,460</u>	<u>(639,741)</u>	<u>(10,127)</u>	<u>56,196,592</u>
Governmental Activities				
Capital Assets, Net	<u>\$57,500,019</u>	<u>(\$444,837)</u>	<u>(\$10,127)</u>	<u>\$57,045,055</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$598,537
Special	32,451
Vocational	29,671
Support Services:	
Pupils	8,498
Instructional Staff	53,923
Administration	22,859
Fiscal	4,323
Operation and Maintenance of Plant	49,533
Pupil Transportation	157,335
Non-Instructional Services	99,273
Extracurricular Activities	92,511
Total Depreciation Expense	<u>\$1,148,914</u>

Highland Local School District  
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**Note 11 - Interfund**

At June 30, 2015, the General Fund had an interfund receivable, in the amount of \$177,225 from other governmental funds for short-term loans made to those funds. All amounts are expected to be repaid within one year.

**Note 12 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the School District contracted for the following insurance coverage.

Coverage purchased from Argonaut Insurance Group is as follows:

Buildings and Contents - replacement cost	\$50,193,145
Automobile Liability	1,000,000
General School District Liability	
Per Occurrence	1,000,000
Total per Year	3,000,000
Excess School District Liability	
Per Occurrence	2,000,000
Total per Year	2,000,000

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

For fiscal year 2015, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**Note 13 - Contractual Commitments**

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2016 are as follows:

General Fund	\$171,567
Ohio School Facilities Commission Fund	33,177
Total	<u>\$204,744</u>

**Note 14 - Defined Benefit Pension Plans**

**Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions, between an employer and its employees, of salaries and benefits for employee services. Pensions are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that have already occurred.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables including estimated average life expectancies, earnings on investments, cost of living adjustments, and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation, including pension.

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services, and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually required pension contribution outstanding at the end of the fiscal year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting.

**Plan Description - School Employees Retirement System (SERS)**

Plan Description - School District classified employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about SERS' fiduciary net position. The report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

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

Age and service requirements for retirement are as follows.

	Eligible to retire on or before August 1, 2017 *	Eligible to retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit; Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service over thirty years. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining .82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$284,459 for fiscal year 2015. Of this amount, \$63,466 is reported as an intergovernmental payable.

**Plan Description - State Teachers Retirement System (STRS)**

Plan Description - School District licensed teachers and other certified faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. The report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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Notes to the Basic Financial Statements  
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**Note 14 - Defined Benefit Pension Plans** (continued)

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307. The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-five years of service credit, or thirty years of service credit regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age sixty with thirty-five years of service or age sixty-five with five years of service on August 1, 2026.

The DCP allows members to place all their member contributions and 9.5 percent of the 14 percent employer contribution into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The CP offers features of both the DBP and the DCP. In the CP, member contributions are allocated among investment choices by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty.

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

A DBP or CP member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased 1 percent on July 1, 2014, and will be increased 1 percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

Highland Local School District  
Notes to the Basic Financial Statements  
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**Note 14 - Defined Benefit Pension Plans** (continued)

The School District's contractually required contribution to STRS was \$995,969 for fiscal year 2015. Of this amount, \$167,516 is reported as an intergovernmental payable.

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,824,706	\$16,740,714	\$20,565,420
Proportion of the Net Pension Liability	.07557300%	.06882538%	
Pension Expense	\$224,769	\$664,131	\$888,900

At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$32,552	\$161,166	\$193,718
School District contributions subsequent to the measurement date	284,459	995,969	1,280,428
Total Deferred Outflows of Resources	<u>\$317,011</u>	<u>\$1,157,135</u>	<u>\$1,474,146</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$620,761</u>	<u>\$3,097,096</u>	<u>\$3,717,857</u>

\$1,280,428 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ended June 30,			
2016	(\$146,970)	(\$733,982)	(\$880,952)
2017	(146,970)	(733,982)	(880,952)
2018	(146,970)	(733,982)	(880,952)
2019	(147,299)	(733,984)	(881,283)
Total	<u>(\$588,209)</u>	<u>(\$2,935,930)</u>	<u>(\$3,524,139)</u>

Highland Local School District  
Notes to the Basic Financial Statements  
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**Note 14 - Defined Benefit Pension Plans** (continued)

**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of the annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of June 30, 2014, are presented below.

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal

For postretirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

The long-term return expectation for the pension plan investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.00%
U.S. Stocks	22.50	5.00
Non-U.S. Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00%</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.75 percent as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's Proportionate Share of the Net Pension Liability	\$5,456,720	\$3,824,706	\$2,452,042

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

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Inflation	2.75 percent
Projected Salary Increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost of Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males' ages are set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back for age ninety and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study effective July 1, 2012.

The ten year expected real rate of return on pension plan investments was determined by the STRS investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00%	8.00%
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	<u>100.00%</u>	

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

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's Proportionate Share of the Net Pension Liability	\$23,966,158	\$16,740,714	\$10,630,421

**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, 2015, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 15 - Postemployment Benefits**

**School Employees Retirement System (SERS)**

Health Care Plan Description - The School District contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS' website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

Highland Local School District  
Notes to the Basic Financial Statements  
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**Note 15 - Postemployment Benefits** (continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, .82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$40,350.

The School District's contribution for health care for the fiscal years ended June 30, 2015, 2014, and 2013 was \$17,657, \$2,816, and \$3,449, respectively. For fiscal year 2015, 79 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

**State Teachers Retirement System (STRS)**

Plan Description - The School District participates in the cost-sharing multiple-employer defined benefit health care plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer the plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the STRS financial report which can be obtained by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. All benefit recipients for the most recent year pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to postemployment health care. The School District's contribution for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$71,490, and \$69,842 respectively. The full amount has been contributed for all three fiscal years.

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**Note 16 - Other Employee Benefits**

**A. Compensated Absences**

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred forty-eight days for all employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of sixty-two days for all employees.

**B. Health Care Benefits**

The School District offers life insurance and accidental death and dismemberment insurance to all employees through School Claims Service. The School District offers employee medical/surgical benefits and dental insurance through Aetna. 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.

**Note 17 - Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2015 were as follows:

	Balance at 6/30/14	Additions	Reductions	Balance at 6/30/15	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
General Obligation Bonds					
School Facilities Construction and Improvement Bonds FY 2009					
Serial Bonds 3-4.5%	\$1,400,000	\$0	\$195,000	\$1,205,000	\$250,000
Term Bonds 5.25-5.50%	12,665,000	0	0	12,665,000	0
Capital Appreciation Bonds 13.12%	365,000	0	0	365,000	0
Accretion on Capital Appreciation Bonds	387,710	103,805	0	491,515	0

(continued)

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Notes to the Basic Financial Statements  
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**Note 17 - Long-Term Obligations** (continued)

	Balance at 6/30/14	Additions	Reductions	Balance at 6/30/15	Amounts Due Within One Year
Governmental Activities (continued)					
General Long-Term Obligations					
General Obligation Bonds					
School Facilities Construction and Improvement Bonds FY 2009 (continued)					
Bond Premium	\$560,013	\$0	\$7,568	\$552,445	\$0
Bond Discount	(222,700)	0	(3,009)	(219,691)	0
Total General Obligation Bonds	15,155,023	103,805	199,559	15,059,269	250,000
Net Pension Liability					
SERS	4,494,084	0	669,378	3,824,706	0
STRS	19,941,429	0	3,200,715	16,740,714	0
Total Net Pension Liability	24,435,513	0	3,870,093	20,565,420	0
Compensated Absences Payable	1,023,361	0	204,421	818,940	16,731
Capital Leases Payable	163,878	0	81,009	82,869	82,869
Total Governmental Activities Long-Term Obligations	\$40,777,775	\$103,805	\$4,355,082	\$36,526,498	\$349,600

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

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

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

The bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

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

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

The bonds maturing on December 1, 2033, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

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

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

The bonds maturing on December 1, 2036, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

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

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

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2020 through 2023. The maturity amount of the bonds is \$1,840,000. For fiscal year 2015, \$103,805 was accreted on the capital appreciation bonds for a total value of \$856,515 at fiscal year end.

The School District pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 14 to the basic financial statements.

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

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

The School District's overall debt margin was \$6,518,268 with an unvoted debt margin of \$222,523 at June 30, 2015.

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2015, were as follows:

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2016	\$250,000	\$727,282
2017	275,000	716,438
2018	300,000	703,844
2019	380,000	688,544
2020	100,000	994,994
2021-2025	1,420,000	4,502,351
2026-2030	3,920,000	2,606,409
2031-2035	5,125,000	1,401,687
2036-2037	2,465,000	137,363
Totals	\$14,235,000	\$12,478,912

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

The School District has entered into capitalized leases for equipment. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in fiscal year 2015 were \$81,009.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

**Note 18 - Capital Leases - Lessee Disclosure** (continued)

	Governmental Activities
Equipment	\$248,145
Less Accumulated Depreciation	(43,425)
Carrying Value at June 30, 2015	\$204,720

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2015.

	Governmental Activities	
Year	Principal	Interest
2016	\$82,869	\$1,878

**Note 19 - Fund Balance**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Bond Retirement	Permanent Improvement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
Nonspendable for:						
Materials and Supplies						
Inventory	\$48,576	\$0	\$0	\$0	\$2,865	\$51,441
Prepaid Items	7,972	0	0	0	0	7,972
Total Nonspendable	56,548	0	0	0	2,865	59,413
Restricted for:						
Athletics and Music	0	0	0	0	79,607	79,607
Building Construction	0	0	0	57,105	60,262	117,367
Bus Purchase	2,170	0	0	0	0	2,170
Debt Retirement	0	726,219	0	0	0	726,219
Education Management Information Systems	0	0	0	0	3,652	3,652
Food Service Operations	0	0	0	0	285,574	285,574
Regular Instruction	0	0	0	0	3,302	3,302

(continued)

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

**Note 19 - Fund Balance** (continued)

Fund Balance	General	Bond Retirement	Permanent Improvement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
School Facilities Maintenance	\$0	\$0	\$0	\$0	\$732,192	\$732,192
Special Instruction	0	0	0	0	13,061	13,061
Total Restricted	2,170	726,219	0	57,105	1,177,650	1,963,144
Committed for:						
Building Construction	0	0	2,128,426	0	0	2,128,426
Assigned for:						
Educational Activities	26,089	0	0	0	0	26,089
Extracurricular Activities	5,853	0	0	0	0	5,853
Unpaid Obligations	165,628	0	0	0	0	165,628
Total Assigned	197,570	0	0	0	0	197,570
Unassigned (Deficit)	5,320,107	0	0	0	(14,752)	5,305,355
Total Fund Balance	\$5,576,395	\$726,219	\$2,128,426	\$57,105	\$1,165,763	\$9,653,908

**Note 20 - Interfund Transfers**

During fiscal year 2015, the Ohio School Facilities Commission capital projects fund made transfers to the Permanent Improvement capital projects fund, in the amount of \$684,570, for the return of interest earned on the local portion of the building project.

**Note 21 - 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 acquisition and construction of capital improvements. The amount 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. This amount must be carried forward and used for the same purpose in future years.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

**Note 21 - Set Asides** (continued)

The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2015.

	Capital Improvements
Balance June 30, 2014	\$0
Current Year Set Aside Requirement	313,801
Current Year Offsets	(313,801)
Balance June 30, 2015	\$0

**Note 22 - Jointly Governed Organizations**

**A. Metropolitan Educational Technology Association**

The School District is a participant in the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an association of public school districts within the boundaries of Athens, Crawford, Delaware, Erie, Franklin, Knox, Licking, Lorain, Marion, Morrow, Muskingum, Union, 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 META 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 2015, the School District paid \$30,091 to META for various services. Financial information can be obtained from META, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

**B. Tri-Rivers Joint Vocational School**

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

**C. Metropolitan Educational Council**

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

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**Note 23 - Insurance Pool**

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

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

**Note 24 - Related Organization**

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

**Note 25 - 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, 2015.

**B. School Foundation**

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015, foundation funding for the School District, therefore, any financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

Highland Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**Note 25 - Contingencies** (continued)

**C. Litigation**

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

**Note 26 - Subsequent Event**

On August 27, 2015, the School District issued general obligation bonds, in the amount of \$8,465,000, to advance refund bonds previously issued in fiscal year 2009 for constructing, renovating, and adding to buildings; furnishing and equipping buildings; and improving School District sites. The bonds have an interest rate of 1 to 4 percent and mature on December 1, 2036.

On March 8, 2016, the School District issued general obligation bonds, in the amount of \$4,200,000 to advance refund bonds previously issued in fiscal year 2009 for constructing, renovating, and adding to buildings; furnishing and equipping buildings; and improving School District sites. The bonds have an interest rate of 2 to 5 percent and mature on December 1, 2028.

Highland Local School District  
 Required Supplementary Information  
 Schedule of the School District's Proportionate Share of the Net Pension Liability  
 School Employees Retirement System of Ohio  
 Last Two Fiscal Years (1)

	2014	2013
School District's Proportion of the Net Pension Liability	0.07557300%	0.07557300%
School District's Proportionate Share of the Net Pension Liability	\$3,824,707	\$4,494,084
School District's Covered Employee Payroll	\$2,011,244	\$2,155,656
School District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	190.17%	208.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

Highland Local School District  
 Required Supplementary Information  
 Schedule of the School District's Proportionate Share of the Net Pension Liability  
 State Teachers Retirement System of Ohio  
 Last Two Fiscal Years (1)

	2014	2013
School District's Proportion of the Net Pension Liability	0.06882538%	0.06882538%
School District's Proportionate Share of the Net Pension Liability	\$16,740,714	\$19,941,429
School District's Covered Employee Payroll	\$7,145,508	\$6,841,615
School District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	234.28%	291.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

Highland Local School District  
 Required Supplementary Information  
 Schedule of the School District's Contributions  
 School Employees Retirement System of Ohio  
 Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$284,459	\$263,473	\$282,391	\$273,547
Contributions in Relation to the Contractually Required Contribution	<u>(284,459)</u>	<u>(263,473)</u>	<u>(282,391)</u>	<u>(273,547)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Employee Payroll	\$2,158,264	\$2,011,244	\$2,155,656	\$2,153,913
Contributions as a Percentage of Covered Employee Payroll	13.18%	13.10%	13.10%	12.70%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$262,025	\$274,700	\$195,387	\$175,848	\$191,751	\$177,883
<u>(262,025)</u>	<u>(274,700)</u>	<u>(195,387)</u>	<u>(175,848)</u>	<u>(191,751)</u>	<u>(177,883)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,218,671	\$2,149,452	\$2,149,472	\$1,919,738	\$1,795,421	\$1,681,314
11.81%	12.78%	9.09%	9.16%	10.68%	10.58%

Highland Local School District  
 Required Supplementary Information  
 Schedule of the School District's Contributions  
 State Teachers Retirement System of Ohio  
 Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$995,969	\$928,916	\$889,410	\$874,963
Contributions in Relation to the Contractually Required Contribution	<u>(995,969)</u>	<u>(928,916)</u>	<u>(889,410)</u>	<u>(874,963)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Employee Payroll	\$7,114,064	\$7,145,508	\$6,841,615	\$6,730,485
Contributions as a Percentage of Covered Employee Payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$901,431	\$904,104	\$894,679	\$845,123	\$829,114	\$771,947
<u>(901,431)</u>	<u>(904,104)</u>	<u>(894,679)</u>	<u>(845,123)</u>	<u>(829,114)</u>	<u>(771,947)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$6,934,085	\$6,954,646	\$6,882,146	\$6,500,946	\$6,377,800	\$5,938,054
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Expenditures
 <b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>		
<i>Passed Through Ohio Department of Education:</i>		
Child Nutrition Cluster:		
Non-Cash Assistance (Food Distribution):		
National School Lunch Program	10.555	\$ 38,657
Cash Assistance:		
Breakfast Program	10.553	69,734
National School Lunch Program	10.555	294,196
Total Child Nutrition Cluster		<u>402,587</u>
 Total U.S. Department of Agriculture		<b>402,587</b>
 <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>		
<i>Passed Through Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies	84.010	469,912
Special Education Grants to States	84.027	299,624
Special Education Preschool	84.173	5,966
Total Special Education Cluster		<u>305,590</u>
Improving Teacher Quality State Grants	84.367	54,753
Race to the Top	84.395	41,019
 Total U.S. Department of Education		<b>871,274</b>
 <b>Total</b>		<b>\$ 1,273,861</b>

The accompanying notes are an integral part of this schedule.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Highland Local School District, Morrow County, Ohio (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 21, 2016, wherein we noted the District adopted a new accounting guidance in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contribution Made Subsequent to the Measurement Date*. We also noted the District has changed its accounting basis from cash accounting basis to accounting principles generally accepted in the United States of America. The District has revised its financial presentation to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506  
Phone: 614-466-3402 or 800-443-9275

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***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 21, 2016



# Dave Yost • Auditor of State

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

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

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

We have audited the Highland Local School District's, Morrow County, Ohio (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Highland Local School District's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

### ***Management's Responsibility***

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. 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 our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the Highland Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506  
Phone: 614-466-3402 or 800-443-9275

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***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 21, 2016

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #10.553 & #10.555 Child Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

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

None

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# Dave Yost • Auditor of State

HIGHLAND LOCAL SCHOOL DISTRICT

MORROW COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
APRIL 7, 2016