



Dave Yost • Auditor of State

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

February 27, 2013

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of Highland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. 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 2012 were as follows:

- Net assets decreased overall \$1,017,905, or less than 2 percent.
- A major construction project of new and renovated classroom facilities was wrapped up during fiscal year 2012. In August 2008, the residents of the School District approved a \$15 million, 4.4 mill bond issue to build a new high school and renovate the existing high school and central elementary. This work was in partnership with the Ohio School Facilities Commission - 25 percent local share and 75 percent paid by the State. The combined project budget for the construction and renovations was \$47 million.
- Federal stimulus funds were beneficial to help support the State's Foundation/PASS formula and provide for additional Title funding. The "JOBS" Stimulus funding helped to maintain staffing levels in the School District during fiscal year 2012.
- The contract agreement with the Highland Education Association (the teacher's union) expired in June 2012; however, has been extended for one year. The School District is currently in negotiations with the non-teaching staff, their three-year contract also expired in June 2012.

Using the Basic Financial Statements

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

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

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

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2012. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

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

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

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

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2012 and fiscal year 2011:

Table 1 Net Assets			
	2012	2011	Change
<u>Assets:</u>			
Current and Other Assets	\$16,440,083	\$23,695,173	(\$7,255,090)
Capital Assets, Net	58,886,599	55,663,992	3,222,607
Total Assets	75,326,682	79,359,165	(4,032,483)
<u>Liabilities:</u>			
Current and Other Liabilities	6,649,310	9,560,647	2,911,337
Long-Term Liabilities	16,203,943	16,307,184	103,241
Total Liabilities	22,853,253	25,867,831	3,014,578
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	44,533,680	46,815,244	(2,281,564)
Restricted	3,705,560	4,116,647	(411,087)
Unrestricted	4,234,189	2,559,443	1,674,746
Total Net Assets	\$52,473,429	\$53,491,334	(\$1,017,905)

Although the overall change in net assets was not significant (less than 2 percent), there were a couple changes of note reflected in the above table. Current and other assets decreased \$7.2 million due to completion of the School District's new building construction and the payment of final amounts to contractors. This is also reflected in the decrease in current and other liabilities as well as the increase in net capital assets. Invested in capital assets decreased due to spending remaining bond proceeds for construction.

Table 2 reflects the changes in net assets for fiscal year 2012 and fiscal year 2011.

Table 2 Changes in Net Assets			
	Governmental Activities		
	2012	2011	Change
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$619,135	\$459,501	\$159,634
Operating Grants and Contributions	2,663,114	2,930,630	(267,516)
Total Program Revenues	3,282,249	3,390,131	(107,882)

(continued)

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2
Changes in Net Assets
(continued)

	Governmental Activities		
	2012	2011	Change
Revenues: (continued)			
General Revenues			
Property Taxes Levied for General Purposes	\$3,526,706	\$3,421,081	\$105,625
Property Taxes Levied for Classroom Facilities Purposes	70,590	69,533	1,057
Property Taxes Levied for Debt Service Purposes	816,713	807,129	9,584
Property Taxes Levied for Permanent Improvement Purposes	111,373	174,315	(62,942)
Income Taxes Levied for General Purposes	977,664	915,496	62,168
Grants and Entitlements	8,889,059	9,089,549	(200,490)
Interest	10,032	46,804	(36,772)
Gifts and Donations	4,982	6,415	(1,433)
Miscellaneous	495,108	434,284	60,824
Total General Revenues	<u>14,902,227</u>	<u>14,964,606</u>	<u>(62,379)</u>
Total Revenues	<u>18,184,476</u>	<u>18,354,737</u>	<u>(170,261)</u>
<u>Expenses:</u>			
Instruction:			
Regular	8,176,045	8,474,825	298,780
Special	2,432,907	2,723,046	290,139
Vocational	115,692	167,132	51,440
Support Services:			
Pupils	856,383	872,255	15,872
Instructional Staff	818,703	775,107	(43,596)
Board of Education	234,264	212,337	(21,927)
Administration	1,039,898	471,969	(567,929)
Fiscal	457,670	423,494	(34,176)
Operation and Maintenance of Plant	1,678,625	1,242,787	(435,838)
Pupil Transportation	1,413,876	1,374,368	(39,508)
Central	1,053	5,985	4,932
Non-Instructional Services	774,011	664,047	(109,964)
Extracurricular Activities	379,556	392,269	12,713
Interest and Fiscal Charges	823,698	818,316	(5,382)
Total Expenses	<u>19,202,381</u>	<u>18,617,937</u>	<u>(584,444)</u>
Decrease in Net Assets	(1,017,905)	(263,200)	(754,705)
Net Assets at Beginning of Year	<u>53,491,334</u>	<u>53,754,534</u>	<u>(263,200)</u>
Net Assets at End of Year	<u>\$52,473,429</u>	<u>\$53,491,334</u>	<u>(\$1,017,905)</u>

There was a decrease in program revenues from the prior fiscal year (3 percent decrease) primarily due to the expiration of grant resources received from federal stimulus programs. However, charges for services increased for special education related charges.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Total general revenues remained very comparable to fiscal year 2011. The increase in property taxes collected for general purposes and the decrease in property taxes for permanent improvement purposes reflects the redistribution of inside millage (3 mills) beginning in January 2010 (School District received a full year of tax collections). The School District had moved this portion of inside millage to support permanent improvements in prior years.

Overall expenses increased slightly from the prior fiscal year (3 percent). Program expenses for instruction alone represent 56 percent of total expenses. When combined with the support services related to instruction, such as pupils, instructional staff, operation and maintenance, and pupil transportation, 81 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	
	2012	2011	2012	2011
Instruction:				
Regular	\$8,176,045	\$8,474,825	\$7,968,983	\$7,828,776
Special	2,432,907	2,723,046	772,962	1,271,540
Vocational	115,692	167,132	50,795	102,239
Support Services:				
Pupils	856,383	872,255	418,501	432,949
Instructional Staff	818,703	775,107	818,703	775,107
Board of Education	234,264	212,337	234,264	212,337
Administration	1,039,898	471,969	1,039,898	471,969
Fiscal	457,670	423,494	457,670	423,494
Operation and Maintenance of Plant	1,678,625	1,242,787	1,678,625	1,242,787
Pupil Transportation	1,413,876	1,374,368	1,413,876	1,374,368
Central	1,053	5,985	1,053	5,985
Non-Instructional Services	774,011	664,047	(15,304)	9,497
Extracurricular Activities	379,556	392,269	256,408	258,442
Interest and Fiscal Charges	823,698	818,316	823,698	818,316
Total Expenses	<u>\$19,202,381</u>	<u>\$18,617,937</u>	<u>\$15,920,132</u>	<u>\$15,227,806</u>

Program revenues provided for 17 percent of the costs of services during fiscal year 2012 (a 1 percent decrease 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 83 percent of all program costs during the fiscal year.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The non-instructional service program which includes grants, food subsidies, and cafeteria sales was fully funded by program revenues in the fiscal year. Revenues from extracurricular activities, including athletic events, provided for 32 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 2012, fund balance in the General Fund increased \$807,124 (34 percent). The School District received more in property taxes, State foundation resources, and special education excess costs (tuition and fees revenue).

The fund balance in the Bond Retirement debt service fund increased \$60,737 as collections from property taxes were enough to cover the debt obligations during the year.

The Permanent Improvement capital projects fund decreased \$209,945 (12 percent). The School District purchased 11.8 acres of land and there was a reduction in property taxes due to moving inside millage back to the General Fund.

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

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

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, the most significant changes from the original budget to the final budget were related to property taxes and tuition and fees. The change in revenues from the final budget to actual revenues received was not significant. For expenditures, changes from original budget to final budget as well as from the final budget to actual expenditures were not significant.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012, the School District had \$58,886,599 invested in capital assets (net of accumulated depreciation). Additions for fiscal year 2012 included the purchase of 11.8 acres of land, the continuation of renovations to current school buildings, construction of a new high school, various equipment acquisitions, and a new bus. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Debt

At fiscal year end, the School District had general obligation bonds outstanding, in the amount of \$15,321,337, for school construction. The School District also had outstanding capital leases for equipment, in the amount of \$17,584. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Notes 14 and 15 to the basic financial statements.

Current Issues

This is a very exciting time for the Highland community now that new classroom facilities have been completed including building a new high school, renovating the former high school into a middle school, and renovating the middle school/central elementary into one large elementary school. The Ohio School Facilities Commission has been a great partner with the School District in paying for 75 percent of the project cost.

The Highland Local School District is located in southern Morrow County and includes a small portion of northeastern Delaware County (Porter Township). The area is primarily rural farming and the tax base is primarily residential. Interstate 71 is within easy access to the School District residents and is an easy commute for many traveling to Columbus. The School District's enrollment has experience continued growth and is now serving over 1,900 students.

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

During fiscal 2008, the School District established a Permanent Improvement (PI) Fund by moving unvoted inside millage. This resulted in positive PI fund growth for two years of 3.6 mills. The Board of Education moved 3 mills back to the General Fund in 2010.

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 unclear if school districts will realize the same level of State funding they have realized in past years. It also appears the federal and state stabilization stimulus funding over the previous two fiscal years (2010, 2011) will not continue. This combination of revenue declines at the State level and slower real estate value growth locally is cause for concern for the School District and warrants close attention.

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 Assets
June 30, 2012

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$10,174,226
Cash and Cash Equivalents with Escrow Agents	73,729
Accounts Receivable	22,311
Accrued Interest Receivable	207
Intergovernmental Receivable	397,792
Income Taxes Receivable	414,010
Prepaid Items	3,879
Inventory Held for Resale	21,684
Materials and Supplies Inventory	70,829
Property Taxes Receivable	5,064,544
Unamortized Issuance Costs	196,872
Nondepreciable Capital Assets	727,987
Depreciable Capital Assets, Net	58,158,612
Total Assets	75,326,682
 <u>Liabilities:</u>	
Accounts Payable	163,170
Contracts Payable	425,279
Accrued Wages and Benefits Payable	1,548,293
Matured Compensated Absences Payable	65,562
Intergovernmental Payable	443,138
Accrued Interest Payable	62,632
Deferred Revenue	3,427,916
Retainage Payable	513,320
Long-Term Liabilities:	
Due Within One Year	198,064
Due in More Than One Year	16,005,879
Total Liabilities	22,853,253
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	44,533,680
Restricted For:	
Debt Service	69,621
Capital Projects	2,532,459
Classroom Facilities	532,224
Other Purposes	571,256
Unrestricted	4,234,189
Total Net Assets	\$52,473,429

See Accompanying Notes to Basic Financial Statements

Highland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<u>Governmental Activities:</u>			
Instruction:			
Regular	\$8,176,045	\$30,756	\$176,306
Special	2,432,907	172,281	1,487,664
Vocational	115,692	480	64,417
Support Services:			
Pupils	856,383	0	437,882
Instructional Staff	818,703	0	0
Board of Education	234,264	0	0
Administration	1,039,898	0	0
Fiscal	457,670	0	0
Operation and Maintenance of Plant	1,678,625	0	0
Pupil Transportation	1,413,876	0	0
Central	1,053	0	0
Non-Instructional Services	774,011	292,470	496,845
Extracurricular Activities	379,556	123,148	0
Interest and Fiscal Charges	823,698	0	0
Total Governmental Activities	<u>\$19,202,381</u>	<u>\$619,135</u>	<u>\$2,663,114</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

Change in Net Assets

Net Assets at Beginning of Year
Net Assets at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental
Activities

(\$7,968,983)
(772,962)
(50,795)

(418,501)
(818,703)
(234,264)
(1,039,898)
(457,670)
(1,678,625)
(1,413,876)
(1,053)
15,304
(256,408)
(823,698)
(15,920,132)

3,526,706
70,590
816,713
111,373
977,664
8,889,059
10,032
4,982
495,108

14,902,227

(1,017,905)

53,491,334
\$52,473,429

Highland Local School District
Balance Sheet
Governmental Funds
June 30, 2012

	General	Bond Retirement	Permanent Improvement	Building Construction	Ohio School Facilities Commission
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$3,909,849	\$409,686	\$1,558,428	\$966,315	\$2,431,014
Accounts Receivable	22,311	0	0	0	0
Accrued Interest Receivable	207	0	0	0	0
Intergovernmental Receivable	57,706	0	0	0	0
Income Taxes Receivable	414,010	0	0	0	0
Prepaid Items	3,879	0	0	0	0
Inventory Held for Resale	0	0	0	0	0
Materials and Supplies Inventory	68,266	0	0	0	0
<u>Restricted Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	2,170	0	0	0	0
Cash and Cash Equivalents with Escrow Agents	0	0	0	0	73,729
Property Taxes Receivable	3,946,561	910,731	127,418	0	0
Total Assets	\$8,424,959	\$1,320,417	\$1,685,846	\$966,315	\$2,504,743
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$110,686	\$0	\$0	\$0	\$0
Contracts Payable	0	0	0	60,760	364,519
Accrued Wages and Benefits Payable	1,459,423	0	0	0	0
Matured Compensated Absences Payable	65,562	0	0	0	0
Intergovernmental Payable	422,480	0	0	0	0
Deferred Revenue	3,215,163	717,856	101,116	0	0
Retainage Payable	0	0	0	0	439,591
<u>Payable from Restricted Assets:</u>					
Retainage Payable	0	0	0	0	73,729
Total Liabilities	5,273,314	717,856	101,116	60,760	877,839
<u>Fund Balances:</u>					
Nonspendable	72,145	0	0	0	0
Restricted	2,170	602,561	0	905,555	1,626,904
Committed	0	0	1,584,730	0	0
Assigned	52,538	0	0	0	0
Unassigned (Deficit)	3,024,792	0	0	0	0
Total Fund Balances	3,151,645	602,561	1,584,730	905,555	1,626,904
Total Liabilities and Fund Balances	\$8,424,959	\$1,320,417	\$1,685,846	\$966,315	\$2,504,743

See Accompanying Notes to the Basic Financial Statements

<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$896,764	\$10,172,056
0	22,311
0	207
340,086	397,792
0	414,010
0	3,879
21,684	21,684
2,563	70,829
0	2,170
0	73,729
79,834	5,064,544
<u>\$1,340,931</u>	<u>\$16,243,211</u>

\$52,484	\$163,170
0	425,279
88,870	1,548,293
0	65,562
20,658	443,138
396,487	4,430,622
0	439,591
0	73,729
<u>558,499</u>	<u>7,589,384</u>

2,563	74,708
859,401	3,996,591
0	1,584,730
0	52,538
<u>(79,532)</u>	<u>2,945,260</u>
<u>782,432</u>	<u>8,653,827</u>
<u>\$1,340,931</u>	<u>\$16,243,211</u>

Highland Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 June 30, 2012

Total Governmental Fund Balances	\$8,653,827
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	58,886,599
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	42,156	
Intergovernmental Receivable	333,116	
Income Taxes Receivable	59,312	
Property Taxes Receivable	568,122	
		1,002,706

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.	196,872
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(62,632)	
General Obligation Bonds Payable	(15,321,337)	
Compensated Absences Payable	(865,022)	
Capital Leases Payable	(17,584)	
		(16,266,575)

Net Assets of Governmental Activities	<u><u>\$52,473,429</u></u>
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See Accompanying Notes to the Basic Financial Statements

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Highland Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Bond Retirement	Permanent Improvement	Building Construction	Ohio School Facilities Commission
<u>Revenues:</u>					
Property Taxes	\$3,534,249	\$818,459	\$111,611	\$0	\$0
Income Taxes	973,330	0	0	0	0
Intergovernmental	9,474,972	116,742	15,919	0	477,696
Interest	4,010	0	0	5,331	3,720
Tuition and Fees	202,631	0	0	0	0
Extracurricular Activities	12,925	0	0	0	0
Charges for Services	0	0	0	0	0
Gifts and Donations	4,982	0	0	0	0
Miscellaneous	463,316	0	0	0	0
Total Revenues	<u>14,670,415</u>	<u>935,201</u>	<u>127,530</u>	<u>5,331</u>	<u>481,416</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	6,129,397	0	0	0	0
Special	1,851,422	0	0	0	0
Vocational	110,485	0	0	0	0
Support Services:					
Pupils	429,597	0	0	0	0
Instructional Staff	612,847	0	0	0	0
Board of Education	234,264	0	0	0	0
Administration	1,087,084	0	0	0	0
Fiscal	423,237	26,339	3,592	0	0
Operation and Maintenance of Plant	1,501,721	0	376,383	0	0
Pupil Transportation	1,278,652	0	0	0	0
Central	0	0	0	0	0
Non-Instructional Services	0	0	0	0	0
Extracurricular Activities	207,780	0	0	0	0
Capital Outlay	4,046	0	0	480,846	4,263,650
Debt Service:					
Principal Retirement	16,774	95,000	0	0	0
Interest and Fiscal Charges	1,336	753,125	0	0	0
Total Expenditures	<u>13,888,642</u>	<u>874,464</u>	<u>379,975</u>	<u>480,846</u>	<u>4,263,650</u>
Excess of Revenues Over (Under) Expenditures	781,773	60,737	(252,445)	(475,515)	(3,782,234)
<u>Other Financing Source:</u>					
Sale of Capital Assets	<u>25,351</u>	<u>0</u>	<u>42,500</u>	<u>0</u>	<u>0</u>
Changes in Fund Balances	807,124	60,737	(209,945)	(475,515)	(3,782,234)
Fund Balances at Beginning of Year	2,344,521	541,824	1,794,675	1,381,070	5,409,138
Fund Balances at End of Year	<u>\$3,151,645</u>	<u>\$602,561</u>	<u>\$1,584,730</u>	<u>\$905,555</u>	<u>\$1,626,904</u>

See Accompanying Notes to the Basic Financial Statements

<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$70,679	\$4,534,998
0	973,330
2,087,387	12,172,716
0	13,061
0	202,631
123,148	136,073
292,470	292,470
0	4,982
0	463,316
<u>2,573,684</u>	<u>18,793,577</u>
598,196	6,727,593
598,625	2,450,047
0	110,485
426,852	856,449
197,556	810,403
0	234,264
0	1,087,084
2,274	455,442
17,995	1,896,099
0	1,278,652
1,053	1,053
723,205	723,205
141,737	349,517
0	4,748,542
0	111,774
0	754,461
<u>2,707,493</u>	<u>22,595,070</u>
(133,809)	(3,801,493)
<u>0</u>	<u>67,851</u>
(133,809)	(3,733,642)
916,241	12,387,469
<u>\$782,432</u>	<u>\$8,653,827</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, 2012

Changes in Fund Balances - Total Governmental Funds (\$3,733,642)

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

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

Capital Outlay - Nondepreciable Capital Assets	3,334,460	
Capital Outlay - Depreciable Capital Assets	712,839	
Depreciation	<u>(432,615)</u>	3,614,684

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

Proceeds from Sale of Capital Assets	(67,851)	
Loss on Disposal of Capital Assets	<u>(324,226)</u>	(392,077)

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

Property Taxes	(9,616)	
Income Taxes	4,334	
Intergovernmental	(633,468)	
Interest	(3,029)	
Tuition and Fees	886	
Miscellaneous	<u>31,792</u>	(609,101)

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

General Obligation Bonds	95,000	
Capital Leases	<u>16,774</u>	111,774

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

Accrued Interest Payable	257	
Annual Accretion on Capital Appreciation Bonds	(70,448)	
Amortization of Premium	3,687	
Amortization of Discount	<u>(1,466)</u>	(67,970)

Issuance costs are reported as an expenditure when paid in the governmental funds but are amortized over the life of the debt on the statement of activities. (1,267)

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. 59,694

Change in Net Assets of Governmental Activities (\$1,017,905)

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$3,165,000	\$3,390,000	\$3,450,449	\$60,449
Income Taxes	935,000	935,000	945,213	10,213
Intergovernmental	9,290,000	9,375,000	9,474,972	99,972
Interest	15,000	5,000	4,018	(982)
Tuition and Fees	22,000	178,000	202,535	24,535
Extracurricular Activities	0	12,000	12,925	925
Gifts and Donations	3,000	3,000	5,114	2,114
Miscellaneous	114,149	234,149	242,709	8,560
Total Revenues	<u>13,544,149</u>	<u>14,132,149</u>	<u>14,337,935</u>	<u>205,786</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,636,941	6,659,439	6,079,405	580,034
Special	1,881,291	1,881,291	1,837,875	43,416
Vocational	129,062	129,062	114,752	14,310
Support Services:				
Pupils	455,037	455,037	435,917	19,120
Instructional Staff	576,086	576,086	577,728	(1,642)
Board of Education	187,150	187,150	236,734	(49,584)
Administration	1,090,840	1,136,180	1,078,047	58,133
Fiscal	388,217	388,217	425,897	(37,680)
Operation and Maintenance of Plant	1,348,568	1,348,568	1,539,973	(191,405)
Pupil Transportation	1,282,975	1,284,975	1,286,465	(1,490)
Extracurricular Activities	209,469	209,469	211,108	(1,639)
Capital Outlay	5,000	5,000	4,046	954
Total Expenditures	<u>14,190,636</u>	<u>14,260,474</u>	<u>13,827,947</u>	<u>432,527</u>
Excess of Revenues Over (Under) Expenditures	<u>(646,487)</u>	<u>(128,325)</u>	<u>509,988</u>	<u>638,313</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	25,351	25,351	45,601	20,250
Refund of Prior Year Expenditures	250,000	200,000	206,355	6,355
Other Financing Uses	(150,000)	(150,000)	0	150,000
Total Other Financing Sources (Uses)	<u>125,351</u>	<u>75,351</u>	<u>251,956</u>	<u>176,605</u>
Changes in Fund Balance	(521,136)	(52,974)	761,944	814,918
Fund Balance at Beginning of Year	3,048,373	3,048,373	3,048,373	0
Prior Year Encumbrances Appropriated	65,407	65,407	65,407	0
Fund Balance at End of Year	<u>\$2,592,644</u>	<u>\$3,060,806</u>	<u>\$3,875,724</u>	<u>\$814,918</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$6,939	\$27,781
<u>Liabilities:</u>		
Undistributed Assets	0	\$1,814
Due to Students	0	25,967
Total Liabilities	0	\$27,781
<u>Net Assets:</u>		
Held in Trust for Scholarships	\$6,939	

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Change in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2012

Additions:

Gifts and Donations	\$15,110
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Deductions:

Non-Instructional Services	18,550
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Change in Net Assets	(3,440)
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Net Assets at Beginning of Year	10,379
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Net Assets at End of Year	<u><u>\$6,939</u></u>
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See Accompanying Notes to the Basic Financial Statements

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Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1960. The School District serves an area of approximately one hundred forty-four square miles and is located in Morrow and Delaware Counties. The School District is the 272nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by eighty-seven classified employees, one hundred eighteen certified teaching personnel, and eleven administrative employees who provide services to 1,920 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 insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Highland Local School District, this includes general operations, food service, and student related activities of the School District.

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

The School District participates in three jointly governed organizations, an insurance pool, and is associated with a related organization. These organizations are the Tri-Rivers Educational Computer Association, Tri-Rivers Joint Vocational School, Metropolitan Educational Council, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Selover Public Library. These organizations are presented in Notes 18, 19 and 20 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants 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.

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

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

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

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

Permanent Improvement - 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.

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

Ohio School Facilities Commission Fund - The Ohio School Facilities Commission Fund is used to account for 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 assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District'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.

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

Fund Financial Statements

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

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 revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

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 Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period are reported as deferred revenue.

Expenses/Expenditures

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

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

E. Budgetary Process

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

Note 2 - Summary of Significant Accounting Policies (continued)

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".

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

During fiscal year 2012, the School District invested in federal agency securities and STAR Ohio. Investments are reported at fair value, which is based on quoted market price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on June 30, 2012.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2012 was \$4,010, which includes \$1,731 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, 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.

Note 2 - Summary of Significant Accounting Policies (continued)

H. Inventory

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the General Fund include unexpended revenues restricted for bus purchases. Restricted assets in the Ohio School Facilities Commission capital projects fund consists of resources set aside in separate escrow accounts whose use is limited to the payment of retainage to contractors.

J. Capital Assets

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

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

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

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	10 - 40 years
Buildings and Building Improvements	20 - 100 years
Furniture, Fixtures, and Equipment	5 - 40 years
Vehicles	5 - 15 years

K. Compensated Absences

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Unamortized Issuance Costs, Premiums, and Discounts

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

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants.

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

Note 2 - Summary of Significant Accounting Policies (continued)

O. 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.

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. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

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 resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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.

P. 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.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 3 - Accountability and Compliance

A. Accountability

At June 30, 2012, the Title I and Title II-A special revenue funds had deficit fund balances, in the amount of \$74,048 and \$5,484, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The following funds had appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2012.

<u>Fund</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds			
School Counseling	\$5,400	\$5,700	\$300
Race to the Top	81,208	117,946	36,738
Title VI-B	498,793	498,966	173

The Treasurer will review budgetary activity to ensure that appropriations are within estimated resources.

Note 4 - 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).

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 4 - Budgetary Basis of Accounting (continue)

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

Changes in Fund Balance	
GAAP Basis	\$807,124
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2011, Received in Cash FY 2012	1,119,757
Accrued FY 2012, Not Yet Received in Cash	(1,225,632)
Expenditure Accruals:	
Accrued FY 2011, Paid in Cash FY 2012	(1,952,853)
Accrued FY 2012, Not Yet Paid in Cash	2,058,151
Prepaid Items	(506)
Materials and Supplies Inventory	(7,802)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(36,295)
Budget Basis	\$761,944

Note 5 - Deposits and Investments

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

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 5 - Deposits and Investments (continued)

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

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

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

Investments

As of June 30, 2012, the School District had the following investments:

	Fair Value	Maturity
Federal Home Loan Bank Notes	\$124,995	8/1/2012
Federal Home Loan Mortgage Corporation Notes	174,998	7/9/12
Federal Home Loan Mortgage Corporation Notes	174,970	9/18/12
Federal National Mortgage Association Notes	149,999	7/16/12
Star Ohio	2,641,143	52.5 Days
Total Investments	\$3,266,105	

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 5 - Deposits and Investments (continued)

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

The Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, and Federal National Mortgage Association Notes carry a rating of Aaa by Moody's. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

	Fair Value	Percentage of Portfolio
Federal Home Loan Bank	\$124,995	3.83%
Federal Home Loan Mortgage Corporation	349,968	10.72
Federal National Mortgage Association	149,999	4.59

Note 6 - Receivables

Receivables at June 30, 2012, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, 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	
Newark City School District	\$5,265
Bureau of Workers' Compensation	19
United States Navy	20,561
School Employee's Retirement System	31,861
Total Major Fund	57,706
	(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 6 - Receivables (continued)

	<u>Amount</u>
Governmental Activities (continued)	
Other Governmental Funds	
Race to the Top	\$64,858
Title I	240,228
Title II-A	<u>35,000</u>
Total Other Governmental Funds	<u>340,086</u>
Total Intergovernmental Receivables	<u>\$397,792</u>

Note 7 - 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 8 - 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 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, 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 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, 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.

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, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 8 - Property Taxes (continued)

Accrued property taxes receivable represents the real and public utility property taxes which were measurable as of June 30, 2012, and for which there was an enforceable legal claim. In addition, property taxes receivable includes delinquent personal property taxes from prior years. This tax has since been eliminated. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2012, was \$830,367 in the General Fund, \$16,397 in the Classroom Facilities special revenue fund, \$192,296 in the Bond Retirement debt service fund, and \$26,223 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2011, was \$747,383 in the General Fund, \$14,667 in the Classroom Facilities special revenue fund, \$173,078 in the Bond Retirement debt service fund, and \$23,602 in the Permanent Improvement capital projects fund.

For fiscal year 2012, the amount of the delinquent personal property tax settlement made by the counties was \$2,499 in the General Fund, \$66 in the Classroom Facilities special revenue fund, \$579 in the Bond Retirement debt service fund, and \$79 in the Permanent Improvement capital projects fund. For fiscal year 2011, the amount of the delinquent personal property tax settlement made by the counties was \$1,683 in the General Fund, \$44 in the Classroom Facilities special revenue fund, \$390 in the Bond Retirement debt service fund, and \$53 in the Permanent Improvement capital projects fund.

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

The assessed values upon which fiscal year 2012 taxes were collected are:

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$183,662,530	90.80%	\$184,052,950	90.57%
Industrial/Commercial	13,965,010	6.90	14,402,760	7.09
Public Utility	4,651,750	2.30	4,757,310	2.34
Total Assessed Value	<u>\$202,279,290</u>	<u>100.00%</u>	<u>\$203,213,020</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, 2012

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance at 6/30/11	Additions	Reductions	Balance at 6/30/12
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$383,389	\$239,993	\$0	\$623,382
Construction in Progress	43,160,113	3,094,467	(46,149,975)	104,605
Total Nondepreciable Capital Assets	<u>43,543,502</u>	<u>3,334,460</u>	<u>(46,149,975)</u>	<u>727,987</u>
Depreciable Capital Assets				
Land Improvements	294,198	35,120	0	329,318
Buildings and Building Improvements	14,207,902	46,149,975	(712,129)	59,645,748
Furniture, Fixtures, and Equipment	828,244	589,869	(279,591)	1,138,522
Vehicles	2,051,554	87,850	(410,932)	1,728,472
Total Depreciable Capital Assets	<u>17,381,898</u>	<u>46,862,814</u>	<u>(1,402,652)</u>	<u>62,842,060</u>
Less Accumulated Depreciation				
Land Improvements	(106,587)	(14,076)	0	(120,663)
Buildings and Building Improvements	(3,149,080)	(241,865)	361,677	(3,029,268)
Furniture, Fixtures, and Equipment	(499,400)	(62,841)	237,966	(324,275)
Vehicles	(1,506,341)	(113,833)	410,932	(1,209,242)
Total Accumulated Depreciation	<u>(5,261,408)</u>	<u>(432,615)</u>	<u>1,010,575</u>	<u>(4,683,448)</u>
Depreciable Capital Assets, Net	<u>12,120,490</u>	<u>46,430,199</u>	<u>(392,077)</u>	<u>58,158,612</u>
Governmental Activities Capital Assets, Net	<u>\$55,663,992</u>	<u>\$49,764,659</u>	<u>(\$46,542,052)</u>	<u>\$58,886,599</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$167,186
Special	10,825
Vocational	5,207
Support Services:	
Pupils	1,913
Instructional Staff	12,391
Administration	9,685
Fiscal	4,322
Operation and Maintenance of Plant	22,725
Pupil Transportation	131,023
Non-Instructional Services	39,270
Extracurricular Activities	28,068
Total Depreciation Expense	<u>\$432,615</u>

Note 10 - 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 2012, the School District contracted for the following insurance coverage.

Coverage purchased from Argonaut Insurance Group is as follows:

Buildings and Contents - replacement cost	\$38,049,092
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 2012, 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 11 - Defined Benefit Pension Plans

A. State Teachers Retirement System

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

Note 11 - Defined Benefit Pension Plans (continued)

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$842,641 and \$32,322 for the fiscal year ended June 30, 2012, \$870,439 and \$30,992 for the fiscal year ended June 30, 2011, and \$874,089 and \$30,015 for the fiscal year ended June 30, 2010. For fiscal year 2012, 83 percent has been contributed for both the DBP and the CP, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The contribution to STRS Ohio for the DCP for fiscal year 2012 was \$13,487 made by the School District and \$9,633 made by the plan members. In addition, member contributions of \$23,087 were made for fiscal year 2012 for the defined contribution portion of the CP.

B. School Employees Retirement System

Plan Description - The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Note 11 - Defined Benefit Pension Plans (continued)

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 requirement of plan members and employers is established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. 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, 2012, the allocation to pension and death benefits was 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 was \$273,547, \$262,025, and \$274,700, respectively. For fiscal year 2012, 41 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2012, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

A. State Teachers Retirement System

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

Funding Policy - Chapter 3307 of the Ohio Revised Code authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, 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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The School District's contribution for health care for the fiscal years ended June 30, 2012, 2011, and 2010 was \$68,342, \$70,723, and \$71,317, respectively. For fiscal year 2012, 83 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Note 12 - Postemployment Benefits (continued)

B. School Employees Retirement System

Plan Description - The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2012, this amount was \$35,800. For fiscal year 2012, the School District paid \$35,674 in surcharge.

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

The School District's contribution for health care for the fiscal years ended June 30, 2012, 2011, and 2010 was \$11,847, \$31,727, and \$9,887, respectively. For fiscal year 2012, 41 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2012, this actuarially required allocation was .75 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 was \$16,154, \$16,862, and \$16,336, respectively. For fiscal year 2012, 41 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Note 13 - Other Employee Benefits

A. Compensated Absences

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 13 - Other Employee Benefits (continued)

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

B. Health Care Benefits

The School District offers life insurance and accidental death and dismemberment insurance to all employees through School Claims Service. The School District offers employee medical/surgical benefits through Anthem Blue Cross/Blue Shield. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is offered to all employees through Metropolitan Insurance.

Note 14 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2012 were as follows:

	Balance at 6/30/11	Additions	Reductions	Balance at 6/30/12	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%	\$1,825,000	\$0	\$95,000	\$1,730,000	\$155,000
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	145,862	70,448	0	216,310	0
Bond Premium	576,507	0	3,687	572,820	0
Bond Discount	(229,259)	0	(1,466)	(227,793)	0
Total General Obligation Bonds	15,348,110	70,448	97,221	15,321,337	155,000
Compensated Absences Payable	924,716	74,315	134,009	865,022	25,480
Capital Leases Payable	34,358	0	16,774	17,584	17,584
Total Governmental Activities Long-Term Obligations	\$16,307,184	\$144,763	\$248,004	\$16,203,943	\$198,064

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 14 - Long-Term Obligations (continued)

School Facilities Construction and Improvement Bonds FY 2009 - On November 25, 2008, the School District issued \$15,000,000 in voted general obligation bonds for constructing, renovating, and adding to buildings; 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.

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

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

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

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 14 - Long-Term Obligations (continued)

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

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

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

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2020 through 2023. The maturity amount of the bonds is \$1,840,000. For fiscal year 2012, \$70,448 was accreted on the capital appreciation bonds for a total value of \$581,310 at fiscal year end.

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

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

The School District's overall debt margin was \$3,703,575 with an unvoted debt margin of \$198,456 at June 30, 2012.

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2012, were as follows:

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2013	\$155,000	\$748,869
2014	175,000	742,875
2015	195,000	735,938
2016	250,000	727,281
2017	275,000	716,438
2018-2022	960,000	4,487,369
2023-2027	2,665,000	3,567,706
2028-2032	4,385,000	2,165,747
2033-2037	5,700,000	814,369
Totals	\$14,760,000	\$14,706,592

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 15 - Capital Leases - Lessee Disclosure

The School District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2012 were \$16,774.

	Governmental Activities
Equipment	\$80,180
Less Accumulated Depreciation	(68,153)
Carrying Value, June 30, 2012	\$12,027

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, 2012.

	Governmental Activities	
Year	Principal	Interest
2013	\$17,584	\$526

Note 16 - 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	Building Construction	Ohio School Facilities Commission
Nonspendable for:					
Materials and Supplies Inventory	\$68,266	\$0	\$0	\$0	\$0
Prepaid Items	3,879	0	0	0	0
Total Nonspendable	72,145	0	0	0	0

(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 16 - Fund Balance (continued)

Fund Balance	General	Bond Retirement	Permanent Improvement	Building Construction	Ohio School Facilities Commission
Restricted for:					
Building Construction	\$0	\$0	\$0	\$905,555	\$1,626,904
Bus Purchase	2,170	0	0	0	0
Debt Retirement	0	602,561	0	0	0
Total Restricted	2,170	602,561	0	905,555	1,626,904
Committed for:					
Building Construction	0	0	1,584,730	0	0
Assigned for:					
Educational Activities	15,305	0	0	0	0
Extracurricular Activities	3,769	0	0	0	0
Unpaid Obligations	33,464	0	0	0	0
Total Assigned	52,538	0	0	0	0
Unassigned	3,024,792	0	0	0	0
Total Fund Balance	\$3,151,645	\$602,561	\$1,584,730	\$905,555	\$1,626,904

(continued)

Fund Balance	Other Governmental	Total Governmental Funds
Nonspendable for:		
Materials and Supplies Inventory	\$2,563	\$70,829
Prepaid Items	0	3,879
Total Nonspendable	2,563	74,708
Restricted for:		
Athletics and Music	44,844	44,844
Building Construction	0	2,532,459
Bus Purchase	0	2,170
Debt Retirement	0	602,561
Education Management Information Systems	4,211	4,211
Food Service Operations	255,807	255,807
Network Connectivity	2,700	2,700
Regular Instruction	2,650	2,650

(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 16 - Fund Balance (continued)

Fund Balance	Other Governmental	Total Governmental Funds
Restricted for (continued):		
School Facilities Maintenance	\$523,256	\$523,256
Special Instruction	25,933	25,933
Total Restricted	859,401	3,996,591
Committed for:		
Building Construction	0	1,584,730
Assigned for:		
Educational Activities	0	15,305
Extracurricular Activities	0	3,769
Unpaid Obligations	0	33,464
Total Assigned	0	52,538
Unassigned (Deficit)	(79,532)	2,945,260
Total Fund Balance	\$782,432	\$8,653,827

Note 17 - Set Asides

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the 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.

The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2012.

	Capital Improvements
Balance June 30, 2011	\$0
Current Year Set Aside Requirement	324,298
Qualifying Expenditures	(4,046)
Current Year Offsets	(320,252)
Balance June 30, 2012	\$0

Note 18 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of 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 TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2012, the School District paid \$281,893 to TRECA for various services. Financial information can be obtained from TRECA, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

B. Tri-Rivers Joint Vocational School

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

C. Metropolitan Educational Council

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

Note 19 - 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 20 - Related Organization

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

Note 21 - Contingencies

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

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

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 77,247	\$ 77,247
Cash Assistance:			
Breakfast Program	10.553	85,521	85,521
National School Lunch Program	10.555	326,135	326,135
Total Child Nutrition Cluster		<u>488,903</u>	<u>488,903</u>
Total U.S. Department of Agriculture		<u>488,903</u>	<u>488,903</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Received Direct from the U.S. Department of Education:</i>			
Elementary and Secondary School Counseling Program	84.215E	437,882	439,561
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	316,382	340,640
Special Education Grants to States	84.027	419,798	402,008
ARRA - Special Education Grants to States	84.391	79,516	70,852
Total Special Education Grants to States Cluster		<u>499,314</u>	<u>472,860</u>
Ed Jobs	84.410	507,848	507,848
Education Technology State Grant	84.318	2,726	2,726
Improving Teacher Quality	84.367	48,950	53,362
ARRA - Race to the Top	84.395	54,488	48,522
Total U.S. Department of Education		<u>1,867,590</u>	<u>1,865,519</u>
Total		<u>\$ 2,356,493</u>	<u>\$ 2,354,422</u>

The accompanying notes are an integral part of this schedule.

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 27, 2013.

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

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

Dave Yost
Auditor of State

February 27, 2013



Dave Yost • Auditor of State

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

Board of Education
Highland Local School District
Morrow County
6506 State Route 229
Sparta, Ohio 43350-0098

To the Board of Education:

Compliance

We have audited the compliance of Highland Local School District, Morrow County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Highland Local School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Highland Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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www.ohioauditor.gov

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

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

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated February 27, 2013.

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

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

Dave Yost
Auditor of State

February 27, 2013

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any 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	Unqualified
<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 CFDA #84.410 – Ed Jobs CFDA #84.010 – Title I Grants to Local Educational Agencies
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Title I, #84.010 & #84.389 - Activities Allowed or Unallowed – Noncompliance/Material Weakness/Question Cost	Yes	



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HIGHLAND LOCAL SCHOOL DISTRICT

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 28, 2013