



Dave Yost • Auditor of State



**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash 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, 2014, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, during 2014, the School District has elected to change its financial presentation comparable to the requirements of *Governmental Accounting Standards*. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental and Other Information*

We audited to opine on the School District's financial statements that collectively comprise its basic financial statements.

*Management's Discussion & Analysis* includes tables of net position, changes in net position and governmental activities. This information provides additional analysis and is not a required part of the basic financial statements.

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

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

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2015, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

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

February 6, 2015

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**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

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The discussion and analysis of Highland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014, within the limitations of cash basis accounting. 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 2014 are as follows:

In total, net position increased \$1,050,680, or 12 percent, primarily due to an increase State foundation funding and a significant reduction in disbursements resulting from facility construction completion.

General revenues were \$15,837,833, or 84 percent of total revenues, and reflect the School District's significant dependence on property taxes, income taxes, and unrestricted State entitlements.

The contract agreement with the Highland Education Association (the teacher's union) was negotiated for a three-year term which will expire in July 2016. The contract with the non-teaching staff was negotiated for a three-year period and will expire in June 2015.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

The School District has elected to present its financial statements on the cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net position and the statement of activities provide information about the cash activities of the whole School District.

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

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

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**Reporting the School District as a Whole**

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2014, within the limitations of cash basis accounting. The statement of net position presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants, contributions, and interest restricted to meeting the operational requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may also include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net position and the statement of activities, all of the School District's activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, extracurricular activities, capital outlay, and debt service disbursements.

**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 School District's major funds are the General Fund, the Bond Retirement Fund, the Permanent Improvement Fund, and the Ohio School Facilities Commission Fund.

**Governmental Funds** - All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using the cash basis accounting. The governmental fund financial 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.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

**The School District as a Whole**

Table 1 provides a summary of the School District's net position for fiscal year 2014 and fiscal year 2013:

Table 1  
Net Position

	Governmental Activities		
	2014	2013	Change
<u>Assets:</u>			
Assets	\$9,935,208	\$8,884,528	\$1,050,680
 <u>Net Position:</u>			
Restricted	3,024,472	3,244,157	(219,685)
Unrestricted	6,910,736	5,640,371	1,270,365
Total Net Position	\$9,935,208	\$8,884,528	\$1,050,680

The overall change in net position was a 12 percent increase. This increase was primarily due to an increase State foundation funding (also reflected in the increase in unrestricted net position) and a significant reduction in disbursements resulting from facility construction completion (related to restricted net position).

Table 2 reflects the changes in net position for fiscal year 2014 and fiscal year 2013.

Table 2  
Changes in Net Position

	Governmental Activities		
	2014	2013	Change
<u>Receipts:</u>			
Program Receipts			
Charges for Services	\$852,905	\$848,488	\$4,417
Operating Grants, Contributions, and Interest	2,153,130	2,060,174	92,956
Total Program Receipts	3,006,035	2,908,662	97,373

(continued)

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

Table 2  
Changes in Net Position  
(continued)

	Governmental Activities		
	2014	2013	Change
<u>Receipts:</u> (continued)			
General Receipts			
Property Taxes Levied for General Purposes	\$3,547,084	\$3,525,135	\$21,949
Property Taxes Levied for Classroom Facilities Maintenance	71,712	70,670	1,042
Property Taxes Levied for Debt Service	821,430	816,343	5,087
Property Taxes Levied for Permanent Improvements	112,013	111,320	693
Income Taxes Levied for General Purposes	1,011,555	1,003,380	8,175
Grants and Entitlements	9,799,416	8,897,911	901,505
Interest	26,578	15,538	11,040
Gifts and Donations	3,141	1,028	2,113
Miscellaneous	441,700	396,719	44,981
Sale of Capital Assets	3,204	6,160	(2,956)
Total General Receipts	<u>15,837,833</u>	<u>14,844,204</u>	<u>993,629</u>
Total Receipts	<u>18,843,868</u>	<u>17,752,866</u>	<u>1,091,002</u>
<u>Disbursements:</u>			
Instruction:	6,740,127	6,810,932	70,805
Regular	2,464,665	2,655,993	191,328
Special	270,699	161,127	(109,572)
Vocational			
Support Services:			
Pupils	962,957	477,403	(485,554)
Instructional Staff	307,852	672,753	364,901
Board of Education	246,831	201,008	(45,823)
Administration	1,132,669	1,115,186	(17,483)
Fiscal	420,453	432,369	11,916
Operation and Maintenance of Plant	1,711,198	1,727,543	16,345
Pupil Transportation	1,275,687	1,299,930	24,243
Central	169	390	221
Non-Instructional Services	715,378	636,367	(79,011)
Extracurricular Activities	371,815	304,150	(67,665)
Capital Outlay	254,813	1,713,589	1,458,776
Debt Service:			
Principal Retirement	175,000	155,000	(20,000)
Interest and Fiscal Charges	742,875	748,869	5,994
Total Disbursements	<u>17,793,188</u>	<u>19,112,609</u>	<u>1,319,421</u>
Increase (Decrease) in Net Position	<u>1,050,680</u>	<u>(1,359,743)</u>	<u>2,410,423</u>
Net Position at Beginning of Year - Restated	<u>8,884,528</u>	<u>10,244,271</u>	<u>(1,359,743)</u>
Net Position at End of Year	<u>\$9,935,208</u>	<u>\$8,884,528</u>	<u>\$1,050,680</u>

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

The overall change in program receipts was not significant. The increase in general receipts was primarily due to an increase State foundation funding.

The most significant change in disbursements was due to construction and renovation to the stadium that occurred in the prior fiscal year.

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

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction:				
Regular	\$6,740,127	\$6,810,932	\$6,478,026	\$6,583,424
Special	2,464,665	2,655,993	588,048	889,490
Vocational	270,699	161,127	213,722	94,715
Support Services:				
Pupils	962,957	477,403	962,957	477,403
Instructional Staff	307,852	672,753	307,852	672,753
Board of Education	246,831	201,008	246,831	201,008
Administration	1,132,669	1,115,186	1,132,669	1,115,186
Fiscal	420,453	432,369	420,453	432,369
Operation and Maintenance of Plant	1,711,198	1,727,543	1,711,198	1,727,543
Pupil Transportation	1,275,687	1,299,930	1,275,687	1,299,930
Central	169	390	169	390
Non-Instructional Services	715,378	636,367	60,784	(88,069)
Extracurricular Activities	371,815	304,150	216,069	180,347
Capital Outlay	254,813	1,713,589	254,813	1,713,589
Debt Service:				
Principal Retirement	175,000	155,000	175,000	155,000
Interest and Fiscal Charges	742,875	748,869	742,875	748,869
Total Disbursements	\$17,793,188	\$19,112,609	\$14,787,153	\$16,203,947

Over 83 percent of the School District's programs were provided for through general receipts in fiscal year 2014. However, note there were a couple of programs which received substantial support through program receipts. Approximately 76 percent of special instruction program costs were provided for through program receipts, generally grants restricted to special instruction programs. Program receipts provided for almost all of the non-instructional services program costs. These resources include cafeteria sales and state and federal grants and commodities for the food service operations. Over 41 percent of program fees cover the costs associated with the extracurricular activities program. Sources of revenue for these programs include music and athletic fees, ticket sales, and gate receipts.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

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**The School District's Funds**

The School District's governmental funds are accounted for using the cash basis of accounting. The General Fund had a 27 percent increase in fund balance from the prior fiscal year. The School District received additional State foundation resources due a change in the funding formula.

The change in fund balance in the Bond Retirement debt service fund was not significant.

The increase in fund balance in the Permanent Improvement capital projects fund was due to the General Fund transferring resources into this fund for future capital improvements.

The Ohio School Facilities Commission capital projects fund accounts for resources received from the State portion of the construction and renovation project. The decrease in fund balance represents spending on remaining miscellaneous items from 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, changes from original budget to final budget as well as from the final budget to actual revenues were not significant. The same can be said for expenditures.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2014, the School District had \$64,821,624 in capital assets for governmental activities. The School District is reflecting capital assets at cost. Donated capital assets are reflected at their fair market value as of the date received. For further information regarding the School District's capital assets, refer to Note 8 to the basic financial statements.

**Debt**

The School District's outstanding debt at June 30, 2014, consisted of general obligation bonds, in the amount of \$15,155,023. For further information regarding the School District's long-term obligations, refer to Note 14 to the basic financial statements.

**Current Issues**

The Highland community is very excited to have recently completed a new classroom facilities project which included a new high school building, 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 was a major partner with the building project.

Highland Local School District is located in southern Morrow County and includes a small portion of northeastern Delaware County (Porter Township). The School District is primarily rural farming and the tax base is primarily residential. Interstate 71 is within easy access to the School District residents and is an easy commute for many traveling to Columbus. The School District currently serves approximately 1,850 students.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED**

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

The forecasted trend for the School District largely depends on the State's funding system. With as much as two-thirds of the School District's operational monies coming from the State, a conservative approach continues for all spending. Although the State's economic condition appears to be improving, it is still unclear if school districts will realize a stable and predictable funding system long-term. The School District is, however, fortunate and appreciative to be provided additional operating funds through the State's 2014/2015 biennial budget which will provide much needed support.

**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  
MORROW COUNTY

STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2014

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$9,935,208</u>
<u>Net Position:</u>	
Restricted For:	
Debt Service	\$408,481
Capital Projects	1,523,213
Classroom Facilities	668,316
Other Purposes	424,462
Unrestricted	<u>6,910,736</u>
Total Net Position	<u>\$9,935,208</u>

See Accompanying Notes to Basic Financial Statements

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Program Cash Receipts			Net (Disbursement) Receipt and Change in Net Position
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$6,740,127	\$31,307	\$230,794	(\$6,478,026)
Special	2,464,665	399,654	1,476,963	(588,048)
Vocational	270,699	2,120	54,857	(213,722)
Support Services:				
Pupils	962,957	0	0	(962,957)
Instructional Staff	307,852	0	0	(307,852)
Board of Education	246,831	0	0	(246,831)
Administration	1,132,669	0	0	(1,132,669)
Fiscal	420,453	0	0	(420,453)
Operation and Maintenance of Plant	1,711,198	0	0	(1,711,198)
Pupil Transportation	1,275,687	0	0	(1,275,687)
Central	169	0	0	(169)
Non-Instructional Services	715,378	264,078	390,516	(60,784)
Extracurricular Activities	371,815	155,746	0	(216,069)
Capital Outlay	254,813	0	0	(254,813)
Debt Service:				
Principal Retirement	175,000	0	0	(175,000)
Interest and Fiscal Charges	742,875	0	0	(742,875)
Total Governmental Activities	<u>\$17,793,188</u>	<u>\$852,905</u>	<u>\$2,153,130</u>	<u>(14,787,153)</u>

General Receipts:

Property Taxes Levied for General Purposes	3,547,084
Property Taxes Levied for Classroom Facilities Purposes	71,712
Property Taxes Levied for Debt Service Purposes	821,430
Property Taxes Levied for Permanent Improvement Purposes	112,013
Income Taxes Levied for General Purposes	1,011,555
Grants and Entitlements not Restricted to Specific Programs	9,799,416
Interest	26,578
Gifts and Donations	3,141
Miscellaneous	441,700
Sale of Capital Assets	3,204
Total General Receipts	<u>15,837,833</u>
Change in Net Position	1,050,680
Net Position at Beginning of Year - Restated (Note 3)	<u>8,884,528</u>
Net Position at End of Year	<u>\$9,935,208</u>

See Accompanying Notes to the Basic Financial Statements

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Ohio School Facilities Commission</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>						
Equity in Pooled Cash and Cash Equivalents	\$5,283,006	\$408,481	\$1,627,730	\$1,379,295	\$1,234,526	\$9,933,038
<b>Restricted Assets:</b>						
Equity in Pooled Cash and Cash Equivalents	2,170	0	0	0	0	2,170
<b>Total Assets</b>	<u>\$5,285,176</u>	<u>\$408,481</u>	<u>\$1,627,730</u>	<u>\$1,379,295</u>	<u>\$1,234,526</u>	<u>\$9,935,208</u>
<b>Fund Balances:</b>						
Restricted	\$2,170	\$408,481	\$0	\$1,379,295	\$1,234,526	\$3,024,472
Committed	0	0	1,627,730	0	0	1,627,730
Assigned	265,714	0	0	0	0	265,714
Unassigned	5,017,292	0	0	0	0	5,017,292
<b>Total Fund Balances</b>	<u>\$5,285,176</u>	<u>\$408,481</u>	<u>\$1,627,730</u>	<u>\$1,379,295</u>	<u>\$1,234,526</u>	<u>\$9,935,208</u>

See Accompanying Notes to the Basic Financial Statements

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General	Bond Retirement	Permanent Improvement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
<b>Receipts:</b>						
Property Taxes	\$3,547,084	\$821,430	\$112,013	\$0	\$71,712	\$4,552,239
Income Taxes	1,011,555	0	0	0	0	1,011,555
Intergovernmental	10,297,739	119,157	16,250	0	1,498,694	11,931,840
Interest	11,715	0	0	14,863	0	26,578
Tuition and Fees	433,081	0	0	0	0	433,081
Extracurricular Activities	20,706	0	0	0	155,746	176,452
Charges for Services	0	0	0	0	264,078	264,078
Gifts and Donations	3,141	0	0	0	0	3,141
Miscellaneous	441,700	0	0	0	0	441,700
<b>Total Receipts</b>	<b>15,766,721</b>	<b>940,587</b>	<b>128,263</b>	<b>14,863</b>	<b>1,990,230</b>	<b>18,840,664</b>
<b>Disbursements:</b>						
<b>Current:</b>						
<b>Instruction:</b>						
Regular	6,669,147	0	0	0	70,980	6,740,127
Special	1,639,373	0	0	0	825,292	2,464,665
Vocational	270,699	0	0	0	0	270,699
<b>Support Services:</b>						
Pupils	962,957	0	0	0	0	962,957
Instructional Staff	154,044	0	0	0	153,808	307,852
Board of Education	246,831	0	0	0	0	246,831
Administration	1,132,669	0	0	0	0	1,132,669
Fiscal	387,348	27,055	3,689	0	2,361	420,453
Operation and Maintenance of Plant	1,468,703	0	195,317	0	47,178	1,711,198
Pupil Transportation	1,275,687	0	0	0	0	1,275,687
Central	0	0	0	0	169	169
Non-Instructional Services	0	0	0	0	715,378	715,378
Extracurricular Activities	223,979	0	0	0	147,836	371,815
Capital Outlay	0	0	0	161,411	93,402	254,813
<b>Debt Service:</b>						
Principal Retirement	0	175,000	0	0	0	175,000
Interest and Fiscal Charges	0	742,875	0	0	0	742,875
<b>Total Disbursements</b>	<b>14,431,437</b>	<b>944,930</b>	<b>199,006</b>	<b>161,411</b>	<b>2,056,404</b>	<b>17,793,188</b>
<b>Excess of Receipts Over (Under) Disbursements</b>	<b>1,335,284</b>	<b>(4,343)</b>	<b>(70,743)</b>	<b>(146,548)</b>	<b>(66,174)</b>	<b>1,047,476</b>
<b>Other Financing Sources (Uses):</b>						
Sale of Capital Assets	3,204	0	0	0	0	3,204
Transfers In	0	0	200,000	0	0	200,000
Transfers Out	(200,000)	0	0	0	0	(200,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(196,796)</b>	<b>0</b>	<b>200,000</b>	<b>0</b>	<b>0</b>	<b>3,204</b>
<b>Changes in Fund Balances</b>	<b>1,138,488</b>	<b>(4,343)</b>	<b>129,257</b>	<b>(146,548)</b>	<b>(66,174)</b>	<b>1,050,680</b>
Fund Balances at Beginning of Year - Restated (Note 3)	4,146,688	412,824	1,498,473	1,525,843	1,300,700	8,884,528
Fund Balances at End of Year	<u>\$5,285,176</u>	<u>\$408,481</u>	<u>\$1,627,730</u>	<u>\$1,379,295</u>	<u>\$1,234,526</u>	<u>\$9,935,208</u>

See Accompanying Notes to the Basic Financial Statements

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Receipts:</u>				
Property Taxes	\$3,570,000	\$3,570,000	\$3,547,084	(\$22,916)
Income Taxes	1,050,000	1,010,000	1,011,555	1,555
Intergovernmental	9,814,000	10,263,000	10,297,739	34,739
Interest	6,000	10,000	11,715	1,715
Tuition and Fees	305,100	397,100	433,081	35,981
Extracurricular Activities	10,000	20,000	20,706	706
Gifts and Donations	1,000	2,250	3,141	891
Miscellaneous	98,600	98,600	98,410	(190)
Total Receipts	<u>14,854,700</u>	<u>15,370,950</u>	<u>15,423,431</u>	<u>52,481</u>
<u>Disbursements:</u>				
Current:				
Instruction:				
Regular	6,883,980	6,919,140	6,726,055	193,085
Special	1,439,790	1,439,790	1,639,373	(199,583)
Vocational	364,011	364,011	283,246	80,765
Support Services:				
Pupils	886,000	1,055,000	962,957	92,043
Instructional Staff	339,015	170,015	154,044	15,971
Board of Education	253,625	253,625	247,489	6,136
Administration	1,146,283	1,154,252	1,137,349	16,903
Fiscal	400,400	400,400	387,348	13,052
Operation and Maintenance of Plant	1,516,700	1,516,700	1,468,968	47,732
Pupil Transportation	1,384,950	1,384,950	1,283,020	101,930
Extracurricular Activities	220,000	220,000	223,979	(3,979)
Total Disbursements	<u>14,834,754</u>	<u>14,877,883</u>	<u>14,513,828</u>	<u>364,055</u>
Excess of Receipts Over Disbursements	<u>19,946</u>	<u>493,067</u>	<u>909,603</u>	<u>416,536</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	3,400	3,400	3,204	(196)
Refund of Prior Year Expenditures	250,000	340,000	343,290	3,290
Other Financing Uses	(100,000)	0	0	0
Transfers Out	0	(200,000)	(200,000)	0
Total Other Financing Sources (Uses)	<u>153,400</u>	<u>143,400</u>	<u>146,494</u>	<u>3,094</u>
Changes in Fund Balance	173,346	636,467	1,056,097	419,630
Fund Balance at Beginning of Year	4,094,254	4,094,254	4,094,254	0
Prior Year Encumbrances Appropriated	52,434	52,434	52,434	0
Fund Balance at End of Year	<u><u>\$4,320,034</u></u>	<u><u>\$4,783,155</u></u>	<u><u>\$5,202,785</u></u>	<u><u>\$419,630</u></u>

See Accompanying Notes to the Basic Financial Statements

HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY

STATEMENT OF CASH BASIS FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014

	Private Purpose Trust	Agency
	<u>                    </u>	<u>                    </u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$31,353	\$26,581
	<u>                    </u>	<u>                    </u>
<u>Liabilities:</u>		
Undistributed Assets	0	\$2,899
Due to Students	0	23,682
Total Liabilities	0	\$26,581
	<u>                    </u>	<u>                    </u>
<u>Net Position:</u>		
Held in Trust for Scholarships	\$31,353	
	<u>                    </u>	

See Accompanying Notes to the Basic Financial Statements

HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY

STATEMENT OF CASH BASIS CHANGE IN FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Additions:

Gifts and Donations \$30,223

Deductions:

Non-Instructional Services 4,300

Change in Net Position 25,923

Net Position at Beginning of Year 5,430

Net Position at End of Year \$31,353

See Accompanying Notes to the Basic Financial Statements

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**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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 278<sup>th</sup> largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by eighty-eight classified employees, one hundred twenty-five certified teaching personnel, and fourteen administrative employees who provide services to 1,846 students and other community members. The School District currently operates an elementary school, a middle school, and a high school.

**Reporting Entity**

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

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

The School District participates in three jointly governed organizations, an insurance pool, and is associated with a related organization. These organizations are the 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 19, 20, and 21 to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principals include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School District's accounting policies.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

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

The statement of net position presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**Governmental Funds**

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major funds are the General Fund, Bond Retirement debt service fund, and the Permanent Improvement and Ohio School Facilities Commission capital projects funds.

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

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

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

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

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

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

**Fiduciary Funds**

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

**C. Basis of Accounting**

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

**D. Budgetary Process**

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

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**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 final amended certificate of estimated resources requested by the School District prior to fiscal year end.

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

**E. Cash and Investments**

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

During fiscal year 2014, the School District invested in negotiable certificates of deposit, which are reported at cost.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2014 was \$11,715, which includes \$5,332 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.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**F. Restricted Assets**

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

**G. Capital Assets**

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

**H. Compensated Absences**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

**I. Long-Term Obligations**

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

**J. Net Position**

Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, music and athletic programs, and federal and state grants. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**K. 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. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

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

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

**L. Interfund Activity**

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

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

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

**Note 3 - Change in Basis of Accounting and Restatement of Fund Balance/Net Position**

**A. Change in Basis of Accounting**

For fiscal year 2014, the School District ceased to prepare its financial statements in accordance with generally accepted accounting principles and reported on the cash basis of accounting as described in Note 2C of the basic financial statements.

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

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

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Ohio School Facilities Commission</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Fund Balance at June 30, 2013	\$3,580,587	\$602,476	\$1,524,334	\$1,531,028	\$1,190,009	\$8,428,434
Eliminate Asset Accruals	(4,546,939)	(922,590)	(126,238)	(5,185)	(576,995)	(6,177,947)
Eliminate Liability Accruals	5,113,040	732,938	100,377	0	687,686	6,634,041
Adjusted Fund Balance at June 30, 2013	<u>\$4,146,688</u>	<u>\$412,824</u>	<u>\$1,498,473</u>	<u>\$1,525,843</u>	<u>\$1,300,700</u>	<u>\$8,884,528</u>

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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

	Governmental Activities
Net Position at June 30, 2013	\$51,338,709
Eliminate Financial Statement Adjustments:	
Accounts Receivable	(35,906)
Accrued Interest Receivable	(5,465)
Intergovernmental Receivable	(501,916)
Income Taxes Receivable	(416,986)
Prepaid Items	(10,736)
Inventory Held for Resale	(28,898)
Materials and Supplies Inventory	(66,440)
Property Taxes Receivable	(5,111,600)
Capital Assets	(58,133,826)
Accounts Payable	70,273
Contracts Payable	1,666
Accrued Wages and Benefits Payable	1,585,458
Matured Compensated Absences Payable	16,600
Intergovernmental Payable	411,991
Accrued Interest Payable	62,180
Retainage Payable	44,217
Long-Term Liabilities:	
Due Within One Year	237,352
Due in More Than One Year	15,882,501
Deferred Inflows of Resources - Property Taxes	3,545,354
Adjusted Net Position at June 30, 2013	\$8,884,528

**Note 4 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash, receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as committed or assigned fund balance (cash basis). The General Fund encumbrances outstanding at year end (budgetary basis) were \$82,391.

**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.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 5 - Deposits and Investments** (continued)

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

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

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

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

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.



**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 5 - Deposits and Investments** (continued)

Investments

As of June 30, 2014, the fair value of funds invested in negotiable certificates of deposit was \$1,472,172.

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

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

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

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Negotiable Certificates of Deposit	\$1,472,172	100%

**Note 6 - 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 7 - 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 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, 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.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**Note 7 - Property Taxes** (continued)

Public utility property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, 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, 2014, are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2014 taxes were collected are:

	2013 Second- Half Collections		2014 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$184,765,190	90.64%	\$185,599,070	90.24%
Industrial/Commercial	14,010,870	6.87	14,747,930	7.17
Public Utility	5,068,970	2.49	5,329,770	2.59
Total Assessed Value	<u>\$203,845,030</u>	<u>100.00%</u>	<u>\$205,676,770</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$24.50		\$24.50	

**Note 8 - Capital Assets**

Capital asset activity (at historical cost) for the fiscal year ended June 30, 2014, was as follows:

	Balance at 6/30/13	Additions	Reductions	Balance at 6/30/14
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$623,382	\$30,177	\$0	\$653,559
Construction in Progress	794,572	151,816	(946,388)	0
Total Nondepreciable Capital Assets	<u>1,417,954</u>	<u>181,993</u>	<u>(946,388)</u>	<u>653,559</u>
Depreciable Capital Assets				
Land Improvements	334,365	690,879	0	1,025,244
Buildings and Building Improvements	59,645,748	255,509	0	59,901,257
Furniture, Fixtures, and Equipment	1,171,293	38,231	0	1,209,524
Vehicles	1,803,225	279,395	(50,580)	2,032,040
Total Depreciable Capital Assets	<u>62,954,631</u>	<u>1,264,014</u>	<u>(50,580)</u>	<u>64,168,065</u>
Governmental Activities Capital Assets	<u>\$64,372,585</u>	<u>\$1,446,007</u>	<u>(\$996,968)</u>	<u>\$64,821,624</u>

**HIGHLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 9 - 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 2014, the School District contracted for the following insurance coverage.

Coverage purchased from Argonaut Insurance Group is as follows:

Buildings and Contents - replacement cost	\$48,340,191
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 2014, 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 10 - Contractual Commitments**

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2015 are as follows:

General Fund	\$82,391
Ohio School Facilities Commission	42,466
Total	<u>\$124,857</u>

**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](http://www.strsoh.org).

**HIGHLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**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 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased 1 percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 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 \$870,385 and \$38,641 for the fiscal year ended June 30, 2014, \$852,172 and \$37,238 for the fiscal year ended June 30, 2013, and \$842,641 and \$32,322 for the fiscal year ended June 30, 2012. For fiscal year 2014, 83 percent has been contributed for both the DBP and the CP. The full amount has been contributed for fiscal years 2013 and 2012.

The contribution to STRS Ohio for the DCP for fiscal year 2014 was \$20,347 made by the School District and \$15,987 made by the plan members. In addition, member contributions of \$30,361 were made for fiscal year 2014 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](http://www.ohsers.org) under employers/audit resources.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**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, 2014, the allocation to pension and death benefits was 13.1 percent. The remaining .9 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, 2014, 2013, and 2012 was \$263,473, \$282,391, and \$273,547, respectively. For fiscal year 2014, 57 percent has been contributed. The full amount has been contributed for fiscal years 2013 and 2012.

**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, 2014, four 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](http://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 2014, 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, 2014, 2013, and 2012 was \$71,490, \$69,842, and \$68,342, respectively. For fiscal year 2014, 83 percent has been contributed. The full amount has been contributed for fiscal years 2013 and 2012. The STRS Board voted to discontinue the current 1 percent allocation to the Health Care Plan effective July 1, 2014.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**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](http://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 2014, .14 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 2014, this amount was \$20,250. For fiscal year 2014, the School District paid \$39,330 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, 2014, 2013, and 2012 was \$2,816, \$3,449, and \$11,847, respectively. For fiscal year 2014, 57 percent has been contributed. The full amount has been contributed for fiscal years 2013 and 2012.

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 2014, this actuarially required allocation was .76 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 was \$15,285, \$15,952, and \$16,154, respectively. For fiscal year 2014, 57 percent has been contributed. The full amount has been contributed for fiscal years 2013 and 2012.

**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.

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

**HIGHLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**Note 13 - Other Employee Benefits** (continued)

**B. Health Care Benefits**

The School District offers life insurance and accidental death and dismemberment insurance to all employees through School Claims Service. The School District offers employee medical/surgical benefits and dental insurance through Aetna. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

**Note 14 - Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2014 were as follows:

	Balance at 6/30/13	Additions	Reductions	Balance at 6/30/14	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%	\$1,575,000	\$0	\$175,000	\$1,400,000	\$195,000
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	296,480	91,230	0	387,710	0
Bond Premium	566,805	0	6,792	560,013	0
Bond Discount	(225,401)	0	(2,701)	(222,700)	0
Total General Obligation Bonds	<u>\$15,242,884</u>	<u>\$91,230</u>	<u>\$179,091</u>	<u>\$15,155,023</u>	<u>\$195,000</u>

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

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

**HIGHLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 14 - Long-Term Obligations** (continued)

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

<u>Year</u>	<u>Amount</u>
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:

<u>Year</u>	<u>Amount</u>
2029	\$875,000
2030	920,000
2031	970,000
2032	1,025,000

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

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

<u>Year</u>	<u>Amount</u>
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 2014, \$91,230 was accreted on the capital appreciation bonds for a total value of \$752,710 at fiscal year end.



**HIGHLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**Note 14 - Long-Term Obligations** (continued)

The School District's overall debt margin was \$4,009,711 with an unvoted debt margin of \$200,347 at June 30, 2014.

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2014, were as follows:

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2015	\$195,000	\$735,938
2016	250,000	727,282
2017	275,000	716,438
2018	300,000	703,844
2019	380,000	688,544
2020-2024	885,000	4,861,320
2025-2029	3,680,000	2,806,456
2030-2034	4,865,000	1,670,878
2035-2037	3,600,000	304,150
Totals	\$14,430,000	\$13,214,850

**Note 15 - Capital Leases - Lessee Disclosure**

The School District has entered into capitalized leases for equipment. Capital lease payments are reflected as operating and maintenance of plant program disbursements for governmental funds. The original amount of the leases was \$248,145. Principal payments in 2014 were \$84,267. The balance at June 30, 2014, was \$163,878.

**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 Retiremen t	Permanent Improvement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
Restricted for:						
Athletics and Music	\$0	\$0	\$0	\$0	\$58,118	\$58,118
Building Construction	0	0	0	1,379,295	143,918	1,523,213
Bus Purchase	2,170	0	0	0	0	2,170

(continued)

**HIGHLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

**Note 16 - Fund Balance** (continued)

Fund Balance	General	Bond Retiremen t	Permanent Improvement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
Restricted for (continued):						
Debt Retirement	\$0	\$408,481	\$0	\$0	\$0	\$408,481
Education Management Information Systems	0	0	0	0	3,675	3,675
Food Service Operations	0	0	0	0	324,869	324,869
Network Connectivity	0	0	0	0	8,100	8,100
Regular Instruction	0	0	0	0	5,905	5,905
School Facilities Maintenance	0	0	0	0	668,316	668,316
Special Instruction	0	0	0	0	21,625	21,625
<b>Total Restricted</b>	<b>2,170</b>	<b>408,481</b>	<b>0</b>	<b>1,379,295</b>	<b>1,234,526</b>	<b>3,024,472</b>
Committed for:						
Building Construction	0	0	1,627,730	0	0	1,627,730
Assigned for:						
Educational Activities	18,472	0	0	0	0	18,472
Extracurricular Activities	5,269	0	0	0	0	5,269
Projected Budget Shortage	159,862	0	0	0	0	159,862
Unpaid Obligations	82,111	0	0	0	0	82,111
<b>Total Assigned</b>	<b>265,714</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>265,714</b>
Unassigned	5,017,292	0	0	0	0	5,017,292
<b>Total Fund Balance</b>	<b>\$5,285,176</b>	<b>\$408,481</b>	<b>\$1,627,730</b>	<b>\$1,379,295</b>	<b>\$1,234,526</b>	<b>\$9,935,208</b>

**Note 17 - Interfund Transfers**

During fiscal year 2014, the General Fund made transfers to the Permanent Improvement capital projects fund, in the amount of \$200,000, subsidize operations in that fund.

**Note 18 - Set Asides**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. The amount not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. This amount must be carried forward and used for the same purpose in future years.

**HIGHLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 18 - Set Asides** (continued)

The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2014.

	<u>Capital Improvements</u>
Balance June 30, 2013	\$0
Current Year Set Aside Requirement	318,577
Current Year Offsets	<u>(318,577)</u>
Balance June 30, 2014	<u>\$0</u>

**Note 19 - Jointly Governed Organizations**

**A. Tri-Rivers Educational Computer Association**

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Clark, Crawford, Cuyahoga, Delaware, Franklin, Hamilton, Hocking, Knox, Lorain, Lucas, Mahoning, Marion, Morrow, Muskingum, Summit, Trumbull, 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 2014, the School District paid \$27,257 to TRECA for various services. Financial information can be obtained from TRECA, 100 Executive Drive, 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.

**HIGHLAND LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(Continued)**

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**Note 20 - 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 21 - Related Organization**

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

**Note 22 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2014.

**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, 2014**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 52,785	\$ 52,785
Cash Assistance:			
Breakfast Program	10.553	71,584	71,584
National School Lunch Program	10.555	310,882	310,882
Total Child Nutrition Cluster		<u>435,251</u>	<u>435,251</u>
Food Service Expansion Grant	10.579	-	600
Total U.S. Department of Agriculture		<u><b>435,251</b></u>	<u><b>435,851</b></u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	474,632	465,671
Special Education Grants to States	84.027	372,714	359,620
Improving Teacher Quality State Grants	84.367	63,241	62,960
Race to the Top	84.395	76,445	89,980
My Voice 1.5	84.395	16,130	16,130
My Voice 2.5	84.395	25,460	25,460
OILA Registration	84.395	14,278	14,278
MS FAMS II	84.395	5,520	8,020
Entry Year Teacher	84.395	2,800	2,800
Expanded Value NWEA	84.395	-	3,045
Total Race to the Top		<u>140,633</u>	<u>159,713</u>
Total U.S. Department of Education		<u><b>1,051,220</b></u>	<u><b>1,047,964</b></u>
<b>Total</b>		<u><b>\$ 1,486,471</b></u>	<u><b>\$ 1,483,815</b></u>

The accompanying notes are an integral part of this schedule.

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Highland Local School District (the School 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 School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 6, 2015, wherein we noted the School District changed basis of accounting from generally accepted accounting principles to a special purpose framework other than generally accepted accounting principles.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

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

February 6, 2015





# Dave Yost • Auditor of State

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

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

To the Board of Education:

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

We have audited the Highland Local School District's, Morrow County, Ohio (the School District's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Highland Local School District's major federal programs for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School District's major federal programs.

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

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

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

Our responsibility is to opine on the School District's compliance for each of the School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School District's major programs. However, our audit does not provide a legal determination of the School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Highland Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2014.

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

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

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

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

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



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

February 6, 2015

**HIGHLAND LOCAL SCHOOL DISTRICT  
MORROW COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #84.395 – Race To The Top
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

**HIGHLAND LOCAL SCHOOL DISTRICT**

**HIGHLAND 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 12, 2015**