



**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY
JUNE 30, 2018**

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MORROW COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Highland Local School District
Morrow County
6506 State Route 229
Marengo, Ohio 43334

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Highland Local School District, Morrow County, Ohio (the School District), as of and for the year ended June 30, 2018, 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 accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the 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 such 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Highland Local School District, Morrow County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2018, the School District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2019, 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 "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State

Columbus, Ohio

March 11, 2019

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Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

The discussion and analysis of Highland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2018 were as follows:

- Net position for governmental activities increased \$9,477,417, or 43 percent. This increase was primarily related to the decrease in the net pension/OPEB liability. Net position for the business-type activity decreased 9 percent from the prior fiscal year; fiscal year 2018 was the first full year of operation of the fund.
- General revenues were \$17,285,507, or 86 percent of total revenues, and reflect the School District's dependence on property taxes, income taxes, and unrestricted state entitlements.
- For the business-type activity, 100 percent of the revenue were generated by the program.

Using the Basic Financial Statements

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

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

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

Reporting the School District as a Whole

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2018. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

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

In the statement of net position and the statement of activities, the School District discloses two types of activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Business-Type Activity - This service is provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The Highland Park Fund is reported as business-type activity.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. Highland Local School District's major funds are the General Fund, the Bond Retirement debt service fund, and the Permanent Improvement capital projects fund.

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

Enterprise Fund - The enterprise fund uses the same basis of accounting as the business-type activity; therefore, these statements are essentially the same.

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

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2018 and fiscal year 2017:

Table 1
Net Position

	Governmental Activities		Business-Type Activity		Total	
	2018	2017	2018	2017	2018	2017
<u>Assets</u>						
Current and Other Assets	\$16,562,209	\$15,835,601	(\$36,865)	(\$15,984)	\$16,525,344	\$15,819,617
Capital Assets, Net	55,719,789	56,670,388	323,740	332,702	56,043,529	57,003,090
Total Assets	<u>72,281,998</u>	<u>72,505,989</u>	<u>286,875</u>	<u>316,718</u>	<u>72,568,873</u>	<u>72,822,707</u>
<u>Deferred Outflows of Resources</u>						
Pension	6,575,585	5,149,914	0	0	6,575,585	5,149,914
OPEB	292,897	38,974	0	0	292,897	38,974
Other Amounts	1,721,173	1,748,786	0	0	1,721,173	1,748,786
Total Deferred Outflows of Resources	<u>8,589,655</u>	<u>6,937,674</u>	<u>0</u>	<u>0</u>	<u>8,589,655</u>	<u>6,937,674</u>
<u>Liabilities</u>						
Current and Other Liabilities	1,692,624	1,688,933	90	2,795	1,692,714	1,691,728
Long-Term Liabilities						
Net Pension Liability	20,993,056	28,192,689	0	0	20,993,056	28,192,689
Net OPEB Liability	4,683,891	5,721,642	0	0	4,683,891	5,721,642
Other Amounts	16,916,878	17,135,682	0	0	16,916,878	17,135,682
Total Liabilities	<u>44,286,449</u>	<u>52,738,946</u>	<u>90</u>	<u>2,795</u>	<u>44,286,539</u>	<u>52,741,741</u>
<u>Deferred Inflows of Resources</u>						
Pension	835,821	218,688	0	0	835,821	218,688
OPEB	527,708	0	0	0	527,708	0
Other Amounts	3,487,402	4,229,173	0	0	3,487,402	4,229,173
Total Deferred Inflows of Resources	<u>4,850,931</u>	<u>4,447,861</u>	<u>0</u>	<u>0</u>	<u>4,850,931</u>	<u>4,447,861</u>
<u>Net Position</u>						
Net Investment in Capital Assets	42,686,907	43,138,577	323,740	330,313	43,010,647	43,468,890
Restricted	2,687,794	2,348,215	0	0	2,687,794	2,348,215
Unrestricted (Deficit)	(13,640,428)	(23,229,936)	(36,955)	(16,390)	(13,677,383)	(23,246,326)
Total Net Position	<u>\$31,734,273</u>	<u>\$22,256,856</u>	<u>\$286,785</u>	<u>\$313,923</u>	<u>\$32,021,058</u>	<u>\$22,570,779</u>

The net pension liability reported by the School District at June 30, 2018, is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For fiscal year 2018, the School District adopted GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, end users of these financial statements will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability, and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Highland Local School District
Management's Discussion and Analysis
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GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB Statement No. 27) and postemployment benefits (GASB Statement No. 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension or net OPEB liability. GASB Statements No. 68 and No. 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and State law governing these systems requires additional explanation in order to properly understand the information presented in these statements.

GASB Statements No. 68 and No. 75 require the net pension liability and the net OPEB liability to equal the School District's proportionate share of each plan's collective present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide health care to eligible benefit recipients. The retirement systems may allocate a portion of the employer contribution to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

In accordance with GASB Statements No. 68 and No. 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and net OPEB liability, respectively, not accounted for as deferred outflows/inflows.

Highland Local School District
Management's Discussion and Analysis
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As a result of implementing GASB Statement No. 75, the School District is reporting a net OPEB liability and deferred outflows/inflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from \$27,939,524 to \$22,256,856.

Pension/OPEB related changes noted in the above table reflect an increase in deferred outflows and deferred inflows. The decrease in the net pension/OPEB liability represents the School District's proportionate share of the unfunded benefits. As indicated previously, changes in pension benefits, contribution rates, return on investments, and actuarial assumptions all affect the balance of the net pension liability. The effect of these changes for pension and OPEB are the most significant reason for the increase in total net position.

Aside from the changes related to pension, there was only one change of note in the above table for governmental activities. The increase in current and other assets was primarily due to an increase in cash and cash equivalents. Revenues exceeded expenses in all three major funds as well as the collective balance of the nonmajor funds resulting in more cash on hand at fiscal year end.

The negative current and other assets for the business-type activity represents resources owed to governmental activities at fiscal year end (interfund liability).

Table 2 reflects the changes in net position for fiscal year 2018 and fiscal year 2017.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activity		Total	
	2018	2017	2018	2017	2018	2017
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$757,915	\$757,060	\$9,751	\$14,526	\$767,666	\$771,586
Operating Grants and Contributions	1,971,706	2,102,526	1,850	7,677	1,973,556	2,110,203
Capital Grants and Contributions	0	0	0	327,200	0	327,200
Total Program Revenues	<u>2,729,621</u>	<u>2,859,586</u>	<u>11,601</u>	<u>349,403</u>	<u>2,741,222</u>	<u>3,208,989</u>
General Revenues						
Property Taxes Levied for General Purposes	4,462,525	3,934,254	0	0	4,462,525	3,934,254
Property Taxes Levied for Classroom Facilities Purposes	80,944	72,225	0	0	80,944	72,225
Property Taxes Levied for Debt Service Purposes	1,033,428	911,541	0	0	1,033,428	911,541
Property Taxes Levied for Permanent Improvement Purposes	140,922	124,240	0	0	140,922	124,240
Income Taxes Levied for General Purposes	1,215,047	1,123,688	0	0	1,215,047	1,123,688
Grants and Entitlements not Restricted to Specific Programs	9,848,569	9,561,390	0	0	9,848,569	9,561,390
Interest	139,809	64,896	0	0	139,809	64,896
Gifts and Donations	2,220	50,892	0	0	2,220	50,892
Other	362,043	483,953	0	0	362,043	483,953
Total General Revenues	<u>17,285,507</u>	<u>16,327,079</u>	<u>0</u>	<u>0</u>	<u>17,285,507</u>	<u>16,327,079</u>
Total Revenues	<u>20,015,128</u>	<u>19,186,665</u>	<u>11,601</u>	<u>349,403</u>	<u>20,026,729</u>	<u>19,536,068</u>

(continued)

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Table 2
Changes in Net Position
(continued)

	Governmental Activities		Business-Type Activity		Total	
	2018	2017	2018	2017	2018	2017
<u>Expenses</u>						
Instruction:						
Regular	\$2,532,651	\$8,280,697	\$0	\$0	\$2,532,651	\$8,280,697
Special	1,258,018	2,870,274	0	0	1,258,018	2,870,274
Vocational	155,970	301,152	0	0	155,970	301,152
Support Services:						
Pupils	802,864	961,733	0	0	802,864	961,733
Instructional Staff	222,489	256,501	0	0	222,489	256,501
Board of Education	312,006	247,958	0	0	312,006	247,958
Administration	0	1,358,525	0	0	0	1,358,525
Fiscal	399,705	425,856	0	0	399,705	425,856
Operation of Maintenance of Plant	1,667,382	2,134,661	0	0	1,667,382	2,134,661
Pupil Transportation	1,320,894	1,407,858	0	0	1,320,894	1,407,858
Central	2,123	852	0	0	2,123	852
Non-Instructional Services	763,015	872,736	0	0	763,015	872,736
Extracurricular Activities	453,203	710,186	0	0	453,203	710,186
Interest and Fiscal Charges	647,391	643,162	0	0	647,391	643,162
Highland Park	0	0	38,739	35,480	38,739	35,480
Total Expenses	<u>10,537,711</u>	<u>20,472,151</u>	<u>38,739</u>	<u>35,480</u>	<u>10,576,450</u>	<u>20,507,631</u>
Increase (Decrease) in Net Position	9,477,417	(1,285,486)	(27,138)	313,923	9,450,279	(971,563)
Net Position at Beginning of Year	22,256,856	n/a	313,923	0	22,570,779	n/a
Net Position at End of Year	<u>\$31,734,273</u>	<u>\$22,256,856</u>	<u>\$286,785</u>	<u>\$313,923</u>	<u>\$32,021,058</u>	<u>\$22,570,779</u>

The information necessary to restate the fiscal year 2017 beginning balances and the fiscal year 2017 OPEB expense amounts for the effects of the initial implementation of GASB Statement No. 75 is not available. Therefore, fiscal year 2017 functional expenses still include OPEB expense of \$38,974 computed under GASB Statement No. 45. GASB Statement No. 45 required recognizing pension expense equal to contractually required contributions to the plan. Under GASB Statement No. 75, OPEB expense represents additional amounts earned adjusted by deferred outflows/inflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB Statement No. 75, the fiscal year 2018 financial statements report negative OPEB expense of \$710,436. Consequently, in order to compare fiscal year 2018 total program expenses to fiscal year 2017, the following adjustments are needed.

Total 2018 Program Expenses Under GASB Statement No. 75	\$10,537,711
Negative OPEB Expense Under GASB Statement No. 75	(710,436)
2018 Contractually Required Contribution	(53,530)
Adjusted 2018 Program Expenses	<u>11,301,677</u>
Total 2017 Program Expenses Under GASB Statement No. 45	(20,472,151)
Decrease in Program Expenses Not Related to OPEB	<u>(9,170,474)</u>

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes including a reduction in the discount rate and also voted to suspend cost of living adjustments (COLA). SERS decreased the COLA assumption. See Note 14. As a result of these changes, pension expense decreased from \$2,161,669 in fiscal year 2017 to a negative pension expense of \$6,602,270 for fiscal year 2018.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows.

	2018 Program Expenses Related to Negative Pension Expense
<u>Expenses:</u>	
Instruction:	
Regular	(\$3,948,494)
Special	(992,591)
Vocational	(112,314)
Support Services:	
Pupils	(211,391)
Instructional Staff	(31,004)
Administration	(979,384)
Fiscal	(13,350)
Operation and Maintenance of Plant	(51,764)
Pupil Transportation	(53,807)
Non-Instructional Services	(19,343)
Extracurricular Activities	(188,828)
Total Expenses	(\$6,602,270)

For governmental activities there was a 4 percent increase in total revenues. For program revenues, there was a slight decrease due to less Title I funding. For general revenues, there were modest increases in property tax revenue, income taxes, unrestricted State foundation resources, and interest. Aside from the decreases related to pension/OPEB discussed above, there was a modest decrease in total expenses due to general salary and benefit increases.

For the business-type activity, there was a significant decrease in revenues as the Highland Park and the related assets were contributed to the School District in the prior fiscal year. Expenses were similar to fiscal year 2017.

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

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction:				
Regular	\$2,532,651	\$8,280,697	\$2,381,225	\$8,151,505
Special	1,258,018	2,870,274	(315,798)	1,200,738
Vocational	155,970	301,152	61,814	223,316
Support Services:				
Pupils	802,864	961,733	802,864	961,733
Instructional Staff	222,489	256,501	222,489	256,501
Board of Education	312,006	247,958	312,006	247,958
Administration	0	1,358,525	0	1,358,525
Fiscal	399,705	425,856	389,414	415,852
Operation and Maintenance of Plant	1,667,382	2,134,661	1,667,382	2,134,661
Pupil Transportation	1,320,894	1,407,858	1,320,894	1,407,858
Central	2,123	852	2,123	852
Non-Instructional Services	763,015	872,736	27,642	76,722
Extracurricular Activities	453,203	710,186	288,644	533,182
Interest and Fiscal Charges	647,391	643,162	647,391	643,162
Total Expenses	<u>\$10,537,711</u>	<u>\$20,472,151</u>	<u>\$7,808,090</u>	<u>\$17,612,565</u>

With the substantial contribution of general revenues for funding the School District's activities, only a limited number of activities are affected by program revenues. Instruction costs are partially offset by tuition and fees and grants restricted for various instruction purposes. Non-instructional services costs are supported by cafeteria sales, state and federal subsidies, and donated commodities for food service operations. Extracurricular activities costs are supported by music and athletic fees, ticket sales, and gate receipts at musical and athletic events.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting.

In the General Fund, fund balance increased almost 13 percent from fiscal year 2017. There was a 6 percent increase in revenues with increases in property taxes, income taxes, State foundation resources, interest revenue, and tuition. There was only a 2 percent increase in expenditures which was not significant.

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

Fund balance increased in the Permanent Improvement capital projects fund as few improvements were made in fiscal year 2018.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

General Fund Budgeting Highlights

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, the School District had \$56,043,529 invested in capital assets (net of accumulated depreciation). Governmental additions for fiscal year 2018 included scoreboards, a floor scrubber, a mower, and three buses. Disposals included a gator and four buses. For business-type activities, additions included a scoreboard at the park. There were no disposals for business-type activities. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At fiscal year end, the School District had general obligation bonds outstanding, in the amount of \$15,830,477, for school construction. The School District's long-term obligations also include the net pension/OPEB liability and compensated absences. For further information regarding the School District's long-term obligations, refer to Note 17 to the basic financial statements.

Current Issues

Highland Local School District is located in southern Morrow County and includes a small portion of northeastern Delaware County (Porter Township). The School District is made up largely from a residential tax base and enjoys a rural country setting. 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 1,865 students.

Residential property values have generally increased along with growing student population. Agricultural values experienced a significant increase (60 percent) during the 2014 property update. More recently, with the 2017 reappraisal, changes to the CAUV calculation resulted in a \$10 million loss in our agricultural values.

The School District is proud to offer a high quality educational experience while maintaining one of the lowest overall property tax rates in the State; a total of 24.5 mills which includes 4.4 mills for bond retirement and .6 mills for permanent improvements. The School District also receives a continuing one-half percent income tax which has been received since 1991.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

The School District depends largely on the State's foundation funding system. As much as two-thirds of the School District's operational funding is received from the State. The School District continues to maintain a stable financial position through conservative 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.

Contacting the School District's Financial Management

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

Highland Local School District
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activity	Total
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$10,284,248	\$0	\$10,284,248
Accounts Receivable	53,279	0	53,279
Accrued Interest Receivable	1,796	0	1,796
Intergovernmental Receivable	257,238	0	257,238
Income Taxes Receivable	513,544	0	513,544
Internal Balances	36,865	(36,865)	0
Prepaid Items	29,382	0	29,382
Inventory Held for Resale	21,321	0	21,321
Materials and Supplies Inventory	49,320	0	49,320
Property Taxes Receivable	5,315,216	0	5,315,216
Nondepreciable Capital Assets	776,573	187,500	964,073
Depreciable Capital Assets, Net	54,943,216	136,240	55,079,456
Total Assets	<u>72,281,998</u>	<u>286,875</u>	<u>72,568,873</u>
<u>Deferred Outflows of Resources:</u>			
Deferred Charge on Refunding	1,721,173	0	1,721,173
Pension	6,575,585	0	6,575,585
OPEB	292,897	0	292,897
Total Deferred Outflows of Resources	<u>8,589,655</u>	<u>0</u>	<u>8,589,655</u>
<u>Liabilities:</u>			
Accounts Payable	29,496	90	29,586
Accrued Wages and Benefits Payable	1,378,044	0	1,378,044
Intergovernmental Payable	248,696	0	248,696
Accrued Interest Payable	36,388	0	36,388
<u>Long-Term Liabilities:</u>			
Due Within One Year	673,422	0	673,422
Due in More Than One Year			
Net Pension Liability	20,993,056	0	20,993,056
Net OPEB Liability	4,683,891	0	4,683,891
Other Amounts Due in More than One Year	16,243,456	0	16,243,456
Total Liabilities	<u>44,286,449</u>	<u>90</u>	<u>44,286,539</u>
<u>Deferred Inflows of Resources:</u>			
Property Taxes	3,487,402	0	3,487,402
Pension	835,821	0	835,821
OPEB	527,708	0	527,708
Total Deferred Inflows of Resources	<u>4,850,931</u>	<u>0</u>	<u>4,850,931</u>
<u>Net Position:</u>			
Net Investment in Capital Assets	42,686,907	323,740	43,010,647
<u>Restricted For:</u>			
Debt Service	1,157,576	0	1,157,576
Capital Projects	13,985	0	13,985
Cafeteria Operations	404,466	0	404,466
Classroom Facilities	953,767	0	953,767
Other Purposes	158,000	0	158,000
Unrestricted (Deficit)	(13,640,428)	(36,955)	(13,677,383)
Total Net Position	<u>\$31,734,273</u>	<u>\$286,785</u>	<u>\$32,021,058</u>

See Accompanying Notes to Basic Financial Statements

Highland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<u>Governmental Activities:</u>			
Instruction:			
Regular	\$2,532,651	\$67,767	\$83,659
Special	1,258,018	173,105	1,400,711
Vocational	155,970	0	94,156
Support Services:			
Pupils	802,864	0	0
Instructional Staff	222,489	0	0
Board of Education	312,006	0	0
Fiscal	399,705	10,291	0
Operation and Maintenance of Plant	1,667,382	0	0
Pupil Transportation	1,320,894	0	0
Central	2,123	0	0
Non-Instructional Services	763,015	342,193	393,180
Extracurricular Activities	453,203	164,559	0
Interest and Fiscal Charges	647,391	0	0
Total Governmental Activities	<u>10,537,711</u>	<u>757,915</u>	<u>1,971,706</u>
<u>Business-Type Activity:</u>			
Highland Park	38,739	9,751	1,850
Total	<u>\$10,576,450</u>	<u>\$767,666</u>	<u>\$1,973,556</u>

General Revenues:

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

Change in Net Position

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

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position

Governmental Activities	Business-Type Activity	Total
(\$2,381,225)	\$0	(\$2,381,225)
315,798	0	315,798
(61,814)	0	(61,814)
(802,864)	0	(802,864)
(222,489)	0	(222,489)
(312,006)	0	(312,006)
(389,414)	0	(389,414)
(1,667,382)	0	(1,667,382)
(1,320,894)	0	(1,320,894)
(2,123)	0	(2,123)
(27,642)	0	(27,642)
(288,644)	0	(288,644)
(647,391)	0	(647,391)
(7,808,090)	0	(7,808,090)
0	(27,138)	(27,138)
(7,808,090)	(27,138)	(7,835,228)
4,462,525	0	4,462,525
80,944	0	80,944
1,033,428	0	1,033,428
140,922	0	140,922
1,215,047	0	1,215,047
9,848,569	0	9,848,569
139,809	0	139,809
2,220	0	2,220
362,043	0	362,043
17,285,507	0	17,285,507
9,477,417	(27,138)	9,450,279
22,256,856	313,923	22,570,779
\$31,734,273	\$286,785	\$32,021,058

Highland Local School District
Balance Sheet
Governmental Funds
June 30, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental</u>
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$6,478,890	\$892,912	\$1,358,320	\$1,551,956
Accounts Receivable	53,279	0	0	0
Accrued Interest Receivable	1,796	0	0	0
Intergovernmental Receivable	130,991	0	0	126,247
Income Taxes Receivable	513,544	0	0	0
Interfund Receivable	97,050	0	0	0
Prepaid Items	28,187	0	0	1,195
Inventory Held for Resale	0	0	0	21,321
Materials and Supplies Inventory	45,985	0	0	3,335
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	2,170	0	0	0
Property Taxes Receivable	4,134,434	971,921	133,034	75,827
Total Assets	<u><u>\$11,486,326</u></u>	<u><u>\$1,864,833</u></u>	<u><u>\$1,491,354</u></u>	<u><u>\$1,779,881</u></u>
<u>Liabilities:</u>				
Accounts Payable	\$25,519	\$0	\$0	\$3,977
Accrued Wages and Benefits Payable	1,268,090	0	0	109,954
Intergovernmental Payable	243,263	0	0	5,433
Interfund Payable	0	0	0	60,185
Total Liabilities	<u><u>1,536,872</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>179,549</u></u>
<u>Deferred Inflows of Resources:</u>				
Property Taxes	2,707,349	641,439	87,969	50,645
Unavailable Revenue	413,939	36,289	4,948	128,348
Total Deferred Inflows of Resources	<u><u>3,121,288</u></u>	<u><u>677,728</u></u>	<u><u>92,917</u></u>	<u><u>178,993</u></u>
<u>Fund Balances:</u>				
Nonspendable	74,172	0	0	4,530
Restricted	2,170	1,187,105	0	1,517,961
Committed	0	0	1,398,437	0
Assigned	493,476	0	0	0
Unassigned (Deficit)	6,258,348	0	0	(101,152)
Total Fund Balances	<u><u>6,828,166</u></u>	<u><u>1,187,105</u></u>	<u><u>1,398,437</u></u>	<u><u>1,421,339</u></u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u><u>\$11,486,326</u></u>	<u><u>\$1,864,833</u></u>	<u><u>\$1,491,354</u></u>	<u><u>\$1,779,881</u></u>

See Accompanying Notes to the Basic Financial Statements

Total
Governmental
Funds

\$10,282,078
53,279
1,796
257,238
513,544
97,050
29,382
21,321
49,320

2,170
5,315,216
\$16,622,394

\$29,496
1,378,044
248,696
60,185
1,716,421

3,487,402
583,524
4,070,926

78,702
2,707,236
1,398,437
493,476
6,157,196
10,835,047

\$16,622,394

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Highland Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2018

Total Governmental Fund Balances		\$10,835,047
<p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		55,719,789
Deferred outflows of resources includes deferred charges on refundings which do not provide current financial resources and, therefore, are not reported in the funds.		1,721,173
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		
Accounts Receivable	168,017	
Intergovernmental Receivable	125,593	
Income Taxes Receivable	89,218	
Delinquent Property Taxes Receivable	200,696	583,524
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Accrued Interest Payable	(36,388)	
General Obligation Bonds Payable	(15,830,477)	
Compensated Absences Payable	(1,086,401)	(16,953,266)
The net pension liability and net OPEB liability are not due, and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in governmental funds.		
Deferred Outflows - Pension	6,575,585	
Deferred Inflows - Pension	(835,821)	
Net Pension Liability	(20,993,056)	
Deferred Outflows - OPEB	292,897	
Deferred Inflows - OPEB	(527,708)	
Net OPEB Liability	(4,683,891)	(20,171,994)
Net Position of Governmental Activities		\$31,734,273

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Bond Retirement	Permanent Improvement	Other Governmental
<u>Revenues:</u>				
Property Taxes	\$4,481,624	\$1,037,851	\$141,526	\$81,391
Income Taxes	1,212,140	0	0	0
Intergovernmental	10,528,793	129,141	17,610	1,151,067
Interest	139,809	0	0	0
Tuition and Fees	218,901	0	0	0
Extracurricular Activities	16,360	0	0	164,559
Charges for Services	43,153	0	0	342,796
Gifts and Donations	2,220	0	0	0
Miscellaneous	360,657	0	3,500	10,708
Total Revenues	<u>17,003,657</u>	<u>1,166,992</u>	<u>162,636</u>	<u>1,750,521</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,992,811	0	0	53,425
Special	1,976,315	0	0	547,821
Vocational	270,351	0	0	0
Support Services:				
Pupils	1,087,469	0	0	0
Instructional Staff	219,723	0	0	0
Board of Education	312,006	0	0	0
Administration	1,218,957	0	0	0
Fiscal	389,769	25,632	3,495	2,023
Operation and Maintenance of Plant	1,668,810	0	20,884	24,122
Pupil Transportation	1,532,763	0	0	0
Central	1,271	0	0	852
Non-Instructional Services	0	0	0	704,321
Extracurricular Activities	320,955	0	0	154,636
Capital Outlay	52,570	0	0	35,850
Debt Service:				
Principal Retirement	0	495,000	0	0
Interest and Fiscal Charges	0	445,000	0	0
Total Expenditures	<u>16,043,770</u>	<u>965,632</u>	<u>24,379</u>	<u>1,523,050</u>
Excess of Revenues Over Expenditures	<u>959,887</u>	<u>201,360</u>	<u>138,257</u>	<u>227,471</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	8,500	0	0	0
Transfers In	0	0	200,000	40,082
Transfers Out	(200,000)	0	0	(40,082)
Total Other Financing Sources (Uses)	<u>(191,500)</u>	<u>0</u>	<u>200,000</u>	<u>0</u>
Changes in Fund Balances	768,387	201,360	338,257	227,471
Fund Balances at Beginning of Year	6,059,779	985,745	1,060,180	1,193,868
Fund Balances at End of Year	<u>\$6,828,166</u>	<u>\$1,187,105</u>	<u>\$1,398,437</u>	<u>\$1,421,339</u>

See Accompanying Notes to the Basic Financial Statements

Total
Governmental
Funds

\$5,742,392
1,212,140
11,826,611
139,809
218,901
180,919
385,949
2,220
374,865

20,083,806

7,046,236
2,524,136
270,351

1,087,469
219,723
312,006
1,218,957
420,919
1,713,816
1,532,763
2,123
704,321
475,591
88,420

495,000
445,000

18,556,831

1,526,975

8,500
240,082
(240,082)

8,500

1,535,475

9,299,572

\$10,835,047

Highland Local School District
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2018

Changes in Fund Balances - Total Governmental Funds \$1,535,475

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

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

Capital Outlay - Depreciable Capital Assets	384,112	
Depreciation	<u>(1,325,610)</u>	(941,498)

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

Proceeds from Sale of Capital Assets	(8,500)	
Gain on Disposal of Capital Assets	3,500	
Loss on Disposal of Capital Assets	<u>(4,101)</u>	(9,101)

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

Delinquent Property Taxes	(24,573)	
Income Taxes	2,907	
Intergovernmental	(22,696)	
Tuition and Fees	(10,891)	
Charges for Services	(603)	
Miscellaneous	<u>(16,322)</u>	(72,178)

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

495,000

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

Accrued Interest Payable	1,391	
Annual Accretion on Capital Appreciation Bonds	(213,841)	
Amortization of Premium	42,385	
Amortization of Discount	(4,713)	
Amortization of Deferred Charge on Refunding	<u>(27,613)</u>	(202,391)

(continued)

Highland Local School District
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2018
 (continued)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(\$100,027)
Except for amounts reported as deferred outflows/inflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense on the statement of activities.		
Pension	6,602,270	
OPEB	<u>710,436</u>	7,312,706
Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows.		
Pension	1,405,901	
OPEB	<u>53,530</u>	<u>1,459,431</u>
Change in Net Position of Governmental Activities		<u><u>\$9,477,417</u></u>
See Accompanying Notes to the Basic Financial Statements		

Highland Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$4,220,000	\$4,120,000	\$4,114,912	(\$5,088)
Income Taxes	1,100,000	1,150,000	1,168,745	18,745
Intergovernmental	10,171,000	10,496,000	10,533,414	37,414
Interest	72,000	125,000	139,187	14,187
Tuition and Fees	179,000	210,000	218,393	8,393
Extracurricular Activities	20,000	16,300	16,360	60
Charges for Services	0	0	43,153	43,153
Gifts and Donations	0	750	2,220	1,470
Miscellaneous	94,079	114,079	125,261	11,182
Total Revenues	<u>15,856,079</u>	<u>16,232,129</u>	<u>16,361,645</u>	<u>129,516</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	7,238,573	7,267,973	7,016,890	251,083
Special	2,012,000	2,012,000	1,957,464	54,536
Vocational	280,400	280,400	268,987	11,413
Support Services:				
Pupils	1,125,900	1,125,900	1,090,534	35,366
Instructional Staff	201,350	201,350	204,612	(3,262)
Board of Education	292,500	292,500	308,569	(16,069)
Administration	1,257,700	1,264,200	1,232,703	31,497
Fiscal	397,025	397,025	389,453	7,572
Operation and Maintenance of Plant	1,704,941	1,704,941	1,664,630	40,311
Pupil Transportation	1,412,980	1,502,980	1,538,365	(35,385)
Central	0	0	1,271	(1,271)
Extracurricular Activities	318,400	318,400	324,139	(5,739)
Capital Outlay	23,000	55,000	52,570	2,430
Total Expenditures	<u>16,264,769</u>	<u>16,422,669</u>	<u>16,050,187</u>	<u>372,482</u>
Excess of Revenues Over (Under) Expenditures	<u>(408,690)</u>	<u>(190,540)</u>	<u>311,458</u>	<u>501,998</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	7,379	7,379	8,500	1,121
Refund of Prior Year Expenditures	249,442	174,442	203,241	28,799
Other Financing Uses	0	(18,000)	0	18,000
Transfers Out	0	(200,000)	(200,000)	0
Total Other Financing Sources (Uses)	<u>256,821</u>	<u>(36,179)</u>	<u>11,741</u>	<u>47,920</u>
Changes in Fund Balance	(151,869)	(226,719)	323,199	549,918
Fund Balance at Beginning of Year	6,169,443	6,169,443	6,169,443	0
Prior Year Encumbrances Appropriated	15,639	15,639	15,639	0
Fund Balance at End of Year	<u>\$6,033,213</u>	<u>\$5,958,363</u>	<u>\$6,508,281</u>	<u>\$549,918</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Fund Net Position
Enterprise Fund
June 30, 2018

	Highland Park
<u>Assets:</u>	
<u>Non-Current Assets:</u>	
Nondepreciable Capital Assets	187,500
Depreciable Capital Assets, Net	136,240
Total Assets	323,740
 <u>Liabilities:</u>	
<u>Current Liabilities:</u>	
Accounts Payable	90
Interfund Payable	36,865
Total Liabilities	36,955
 <u>Net Position:</u>	
Net Investment in Capital Assets	323,740
Unrestricted (Deficit)	(36,955)
Total Net Position	\$286,785

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Enterprise Fund
For the Fiscal Year Ended June 30, 2018

	Highland Park
<u>Operating Revenues:</u>	
Sales	\$5,451
Charges for Services	4,300
Other Operating Revenues	1,850
Total Operating Revenues	11,601
<u>Operating Expenses:</u>	
Salaries	9,159
Purchased Services	2,027
Materials and Supplies	11,501
Depreciation	16,052
Total Operating Expenses	38,739
Changes in Net Position	(27,138)
Net Position at Beginning of Year	313,923
Net Position at End of Year	\$286,785

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended June 30, 2018

	Highland Park
<u>Increase in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$9,751
Cash Received from Other Revenues	1,850
Cash Payments for Salaries	(9,159)
Cash Payments for Goods and Services	(16,233)
Net Cash Used for Operating Activities	(13,791)
 <u>Cash Flows from Noncapital Financing Activities</u>	
Cash Received from Advances In	20,881
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition of Capital Assets	(7,090)
Net Increase in Cash and Cash Equivalents	0
Cash and Cash Equivalents at Beginning of Year	0
Cash and Cash Equivalents at End of Year	\$0
 <u>Reconciliation of Operating Loss</u>	
<u>to Net Cash Used for Operating Activities:</u>	
Operating Loss	(\$27,138)
 <u>Adjustments to Reconcile Operating Loss</u>	
<u>to Net Cash Used for Operating Activities:</u>	
Depreciation	16,052
Changes in Liabilities:	
Decrease in Accounts Payable	(2,705)
Net Cash Used for Operating Activities	(\$13,791)

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$32,338	\$45,138
<u>Liabilities:</u>		
Undistributed Assets	0	\$7,626
Due to Students	0	37,512
Total Liabilities	0	\$45,138
<u>Net Position:</u>		
Held in Trust for Scholarships	\$32,338	

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Change in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2018

<u>Additions:</u>	
Gifts and Donations	\$10,059
 <u>Deductions:</u>	
Non-Instructional Services	<u>12,150</u>
Change in Net Position	(2,091)
Net Position at Beginning of Year	<u>34,429</u>
Net Position at End of Year	<u><u>\$32,338</u></u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1960. The School District serves an area of approximately one hundred forty-four square miles and is located in Morrow and Delaware Counties. It is staffed by ninety-eight classified employees, one hundred thirty-one certified teaching personnel, and twelve administrative employees who provide services to 1,865 students and other community members. The School District currently operates an elementary school, a middle school, and a high school.

Reporting Entity

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

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

The School District participates in three jointly governed organizations, an insurance pool, and is associated with a related organization. These organizations are the Metropolitan Educational Technology Association, Tri-Rivers Joint Vocational School, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Selover Public Library. These organizations are presented in Notes 21, 22, and 23 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of Highland Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the School District’s accounting policies.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges).

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

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise 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 three categories, governmental, proprietary, and fiduciary.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

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

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

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

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

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.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, change in net position, financial position, and cash flows.

Enterprise Fund - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District has one enterprise fund, which is not a major fund, that accounts for the operations of a community park.

Fiduciary Funds

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

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Like the government-wide financial statements, the enterprise fund is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net position. The statement of revenues, expenses, and change in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how the School District finances and meets the cash flow needs of its enterprise activity.

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for a deferred charge on refunding and for pension and OPEB. A deferred charge on refunding results from the difference in the carrying value of refunded debt and the reacquisition price. This amount is deferred and amortized over the life of the old debt or the life of the new debt, whichever is shorter. Deferred outflows of resources are also reported on the government-wide statement of net position for pension and OPEB are explained in Notes 14 and 15 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources consists of property taxes, unavailable revenue, pension, and OPEB. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes intergovernmental revenue including grants, income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities on page 21. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position and explained in Notes 14 and 15 to the basic financial statements.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

During fiscal year 2018, investments consisted of STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but has adopted Governmental Accounting Standards Board Statement No. 79, "Certain External Investment Pools and Pool Participants". The School District measures the investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV that approximates fair value.

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million requiring the excess amount to be transacted the following business day(s) but only to the \$100 million limit. All accounts of the participant will be combined for this purpose.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2018 was \$139,809, which includes \$59,578 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the enterprise fund. They generally result from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activity column on the government-wide statement of net position and in the respective fund.

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

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

Description	Governmental Activities Useful Lives	Business-Type Activities Useful Lives
Land Improvements	10 - 40 years	N/A
Buildings and Building Improvements	15 - 100 years	10 years
Furniture, Fixtures, and Equipment	5 - 40 years	5-10 years
Vehicles	5 - 15 years	N/A

K. Deferred Charge on Refunding

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This deferred amount is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as deferred outflows of resources on the statement of net position.

L. Interfund Assets/Liabilities

On fund financial statements, outstanding interfund loans are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net position, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "Internal Balances".

Note 2 - Summary of Significant Accounting Policies (continued)

M. Compensated Absences

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

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

N. Accrued Liabilities and Long-Term Obligations

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

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

O. Unamortized Premiums and Discounts

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

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

Under Ohio law, premiums on the original issuance of debt are to be deposited in the Bond Retirement Fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to a bond escrow agent.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

P. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for 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.

Q. 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 those amounts have been lawfully appropriated. The Board of Education has also assigned fund balance to cover a gap between estimated resources and appropriations in the fiscal year 2019 budget. Certain resources have also been assigned for other educational and extracurricular activities.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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.

R. Interfund Transactions

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

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

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

S. Pension/Postemployment Benefits

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

T. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the School District, these revenues are charges for services from concession sales, for the rental of a community park, and from donations. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

U. Estimates

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

Note 3 - Change in Accounting Principles and Restatement of Net Position

For fiscal year 2018, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", Statement No. 85, "Omnibus 2017", and related guidance from GASB Implementation Guide No. 2017-3, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

For fiscal year 2018, the School District also implemented GASB Implementation Guide No. 2017-1. These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. The implementation of this statement had the following effect on net position as previously reported.

Net Position June 30, 2017	\$27,939,524
Net OPEB Liability	(5,721,642)
Deferred Outflows - Payments Subsequent to the Measurement Date	<u>38,974</u>
Restated Net Position June 30, 2017	<u>\$22,256,856</u>

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred outflows/inflows of resources as the information needed to generate these restatements was not available.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2018, the Title VI-B, Title I, and Title II-A special revenue funds had deficit fund balances, in the amount of \$71,397, \$19,658, and \$10,097, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

For the fiscal year ended June 30, 2018, the Highland Park enterprise fund and the Highland Scholarship private purpose trust fund had expenditures in excess of appropriations, in the amounts of \$593 and \$150, respectively. The Treasurer will monitor expenditures to ensure they are within amounts appropriated.

Note 5 - Budgetary Basis of Accounting

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 5 - Budgetary Basis of Accounting (continued)

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

Changes in Fund Balance	
GAAP Basis	\$768,387
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2017, Received in Cash FY 2018	1,334,170
Accrued FY 2018, Not Yet Received in Cash	(1,772,941)
Expenditure Accruals:	
Accrued FY 2017, Paid in Cash FY 2018	(1,512,171)
Accrued FY 2018, Not Yet Paid in Cash	1,536,872
Prepaid Items	(19,490)
Materials and Supplies Inventory	(1,984)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(9,644)
Budget Basis	\$323,199

Note 6 - Deposits and Investments

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

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 6 - Deposits and Investments (continued)

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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, and Government National Mortgage 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 and, with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 6 - Deposits and Investments (continued)

Investments

As of June 30, 2018, the net value per share of funds on deposit with STAR Ohio was \$4,079,304. The School District's investments in STAR Ohio have an average maturity of 48.9 days. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with interest rate or credit risk beyond the requirements of State statute. Ohio law requires STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

Note 7 - Receivables

Receivables at June 30, 2018, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, interfund, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except income taxes and property taxes, are expected to be collected within one year. Income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Fund	
General Fund	
Bureau of Workers' Compensation	\$22,692
Defense of Finance and Accounting Services	19,510
Northmor Local School District	16,656
School Employees Retirement System	72,133
Total General Fund	130,991
Other Governmental Funds	
Food Service	654
Miscellaneous Grants	593
Title VI-B	94,000
Title I	12,000
Title II-A	9,000
Title IV-A	10,000
Total Other Governmental Funds	126,247
Total Intergovernmental Receivables	\$257,238

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 8 - Income Taxes

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

Note 9 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, 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, 2018, are available to finance fiscal year 2018 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of June 30, 2018, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 9 - Property Taxes (continued)

The amount available as an advance at June 30, 2018, was \$1,270,381 in the General Fund, \$22,427 in the Classroom Facilities special revenue fund, \$294,193 in the Bond Retirement debt service fund, and \$40,117 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2017, was \$903,669 in the General Fund, \$16,358 in the Classroom Facilities special revenue fund, \$209,270 in the Bond Retirement debt service fund, and \$28,536 in the Permanent Improvement capital projects fund.

The assessed values upon which fiscal year 2018 taxes were collected are:

	2017 Second- Half Collections		2018 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$212,451,770	90.03%	\$217,648,440	88.91%
Industrial/Commercial	17,190,810	7.28	20,092,920	8.21
Public Utility	6,348,450	2.69	7,052,970	2.88
Total Assessed Value	<u>\$235,991,030</u>	<u>100.00%</u>	<u>\$244,794,330</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$24.50		\$24.50	

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance at 6/30/17	Additions	Reductions	Balance at 6/30/18
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$776,573	\$0	\$0	\$776,573
Depreciable Capital Assets				
Land Improvements	2,531,422	6,892	0	2,538,314
Buildings and Building Improvements	60,319,382	8,075	0	60,327,457
Furniture, Fixtures, and Equipment	1,381,120	104,342	(13,400)	1,472,062
Vehicles	2,302,482	264,803	(196,531)	2,370,754
Total Depreciable Capital Assets	<u>66,534,406</u>	<u>384,112</u>	<u>(209,931)</u>	<u>66,708,587</u>

(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 10 - Capital Assets (continued)

	Balance at 6/30/17	Additions	Reductions	Balance at 6/30/18
Governmental Activities (continued)				
Less Accumulated Depreciation				
Land Improvements	(\$328,349)	(\$172,084)	\$0	(\$500,433)
Buildings and Building Improvements	(8,125,205)	(923,596)	0	(9,048,801)
Furniture, Fixtures, and Equipment	(673,509)	(77,024)	4,299	(746,234)
Vehicles	(1,513,528)	(152,906)	196,531	(1,469,903)
Total Accumulated Depreciation	(10,640,591)	(1,325,610)	200,830	(11,765,371)
Depreciable Capital Assets, Net	55,893,815	(941,498)	(9,101)	54,943,216
Governmental Activities Capital Assets, Net	\$56,670,388	(\$941,498)	(\$9,101)	\$55,719,789
	Balance at 6/30/17	Additions	Reductions	Balance at 6/30/18
Business-Type Activities				
Nondepreciable Capital Assets				
Land	\$187,500	\$0	\$0	\$187,500
Depreciable Capital Assets				
Buildings and Building Improvements	134,700	0	0	134,700
Furniture, Fixtures, and Equipment	15,500	7,090	0	22,590
Total Depreciable Capital Assets	150,200	7,090	0	157,290
Less Accumulated Depreciation				
Buildings and Building Improvements	(4,490)	(13,470)	0	(17,960)
Furniture, Fixtures, and Equipment	(508)	(2,582)	0	(3,090)
Total Accumulated Depreciation	(4,998)	(16,052)	0	(21,050)
Depreciable Capital Assets, Net	145,202	(8,962)	0	136,240
Business-Type Activities Capital Assets, Net	\$332,702	(\$8,962)	\$0	\$323,740

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 10 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$610,830
Special	32,451
Vocational	29,671
Support Services:	
Pupils	8,499
Instructional Staff	53,140
Administration	21,545
Fiscal	4,322
Operation and Maintenance of Plant	55,271
Pupil Transportation	170,992
Non-Instructional Services	100,035
Extracurricular Activities	238,854
Total Depreciation Expense	\$1,325,610

Note 11 - Interfund

At June 30, 2018, the General Fund had an interfund receivable, in the amount of \$97,050; \$60,185 and \$36,865, from other governmental funds and the Highland Park enterprise fund, respectively, for short-term loans made to those funds. All amounts are expected to be repaid within one year.

Note 12 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the School District contracted for the following insurance coverage.

Coverage purchased from Argonaut Insurance Group is as follows:

Buildings and Contents - replacement cost	\$53,237,575
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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 12 - Risk Management (continued)

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 2018, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 13 - Contractual Commitments

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2019 are as follows:

General Fund	\$9,644
Other Governmental Funds	<u>13,156</u>
Total	<u><u>\$22,800</u></u>

Note 14 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Defined Benefit Pension Plans (continued)

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

GASB Statements No. 68 and No. 75 assume the liability is solely the obligation of the employer because (1) they benefit from employee services and (2) State statute requires all funding to come from the employers. All pension contributions to date have come solely from the employer (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for OPEB benefits. In addition, health care plan enrollees pay a portion of the health care cost in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within thirty years. If the amortization period exceeds thirty years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits but does not require the retirement systems to provide health care to eligible benefit recipients.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension/OPEB liability on the accrual basis of accounting. Any liability for the contractually required pension/OPEB contribution outstanding at the end of the fiscal year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting. The remainder of this note includes the required pension disclosures. See Note 15 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows.

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Defined Benefit Pension Plans (continued)

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$324,369 for fiscal year 2018. Of this amount, \$65,595 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307.

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost of living adjustment was reduced to zero. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-six years of service credit, or thirty-one years of service credit regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age sixty-five or thirty-five years of service credit and at least age sixty.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Defined Benefit Pension Plans (continued)

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

The CP offers features of both the DBP and the DCP. In the CP, 12 percent of the 14 percent member rate goes to the DCP and the remaining 2 percent goes to the DBP. Member contributions to the DCP are allocated among investment choices by the member and contributions to the DBP from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age fifty or later.

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,081,532 for fiscal year 2018. Of this amount, \$184,724 is reported as an intergovernmental payable.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Defined Benefit Pension Plans (continued)

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.07068940%	0.06876847%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.07104080%</u>	<u>0.07050463%</u>	
Change in Proportionate Share	<u>0.00035140%</u>	<u>0.00173616%</u>	
Proportionate Share of the Net Pension Liability	\$4,244,530	\$16,748,526	\$20,993,056
Pension Expense	(\$227,535)	(\$6,374,735)	(\$6,602,270)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences Between Expected and Actual Experience	\$182,670	\$646,749	\$829,419
Changes of Assumptions	219,488	3,663,087	3,882,575
Changes in Proportionate Share and Difference Between School District Contributions and Proportionate Share of Contributions	18,046	439,644	457,690
School District Contributions Subsequent to the Measurement Date	<u>324,369</u>	<u>1,081,532</u>	<u>1,405,901</u>
Total Deferred Outflows of Resources	<u>\$744,573</u>	<u>\$5,831,012</u>	<u>\$6,575,585</u>
Deferred Inflows of Resources			
Differences Between Expected and Actual Experience	\$0	\$134,987	\$134,987
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	20,148	552,721	572,869
Changes in Proportionate Share and Difference Between School District Contributions and Proportionate Share of Contributions	<u>87,319</u>	<u>40,646</u>	<u>127,965</u>
Total Deferred Inflows of Resources	<u>\$107,467</u>	<u>\$728,354</u>	<u>\$835,821</u>

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Defined Benefit Pension Plans (continued)

\$1,405,901 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

Fiscal Year Ended June 30,	SERS	STRS	Total
2019	\$100,573	\$845,999	\$946,572
2020	242,311	1,597,892	1,840,203
2021	68,802	1,182,568	1,251,370
2022	(98,949)	394,667	295,718
Total	<u>\$312,737</u>	<u>\$4,021,126</u>	<u>\$4,333,863</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of June 30, 2017, are presented below.

Wage Inflation	3 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Defined Benefit Pension Plans (continued)

Prior to 2017, an assumption of 3 percent was used for COLA and Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. Mortality among service retired members and beneficiaries were based on the RP-2014 Blue Collar Mortality Table with fully generational projections with Scale BB; 120 percent of male rates and 110 percent of female rates. Mortality among disabled members was based on the RP-2000 Disabled Mortality Table; 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.50%
U.S. Stocks	22.50	4.75
Non-U.S. Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00%	

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Defined Benefit Pension Plans (continued)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.5 percent as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
School District's Proportionate Share of the Net Pension Liability	\$5,890,306	\$4,244,530	\$2,865,859

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation reflecting experience study results used in the July 1, 2017, actuarial valuation compared with July 1, 2016, are presented below.

	July 1, 2017	July 1, 2016
Inflation	2.5 percent	2.75 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost of Living Adjustments (COLA)	0 percent effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date

For the July 1, 2017, actuarial valuation, postretirement mortality rates for healthy retirees were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. Postretirement disabled mortality rates were based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using Mortality Improvement Scale MP-2016. Preretirement mortality rates were based on the RP-2014 Employee Mortality Table projected forward generationally using Mortality Improvement Scale MP-2016.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Defined Benefit Pension Plans (continued)

For the July 1, 2016, actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages were set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty were set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 2, 2011, through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows.

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00%	7.35%
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
	100.00%	

*10 year annualized geometric nominal returns include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a thirty year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return without net value added by management.

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 14 - Defined Benefit Pension Plans (continued)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current rate.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's Proportionate Share of the Net Pension Liability	\$24,008,442	\$16,748,526	\$10,633,135

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, 2018, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 15 - Postemployment Benefits

See Note 14 for a description of the net OPEB liability.

School Employees Retirement System (SERS)

Plan Description - The School District contributes to the SERS Health Care Fund administered by SERS for nonteaching retirees and their beneficiaries. For GASB Statement No. 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. The SERS Health Care Plan provides health care benefits to eligible individuals receiving retirement, disability and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need ten years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of sixty-five and, therefore, enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by State statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 15 - Postemployment Benefits (continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). The SERS Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount; prorated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$39,158.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$53,530 for fiscal year 2018. Of this amount, \$41,587 is reported as an intergovernmental payable.

State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing health care plan for eligible retirees who participated in the defined benefit and combined pension plans offered by STRS. Ohio law authorizes STRS to offer the plan. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the STRS financial report which can be obtained by visiting the STRS website at www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to postemployment health care.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 15 - Postemployment Benefits (continued)

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability Prior Measurement Date	0.07170600%	0.06876847%	
Proportion of the Net OPEB Liability Current Measurement Date	<u>0.07202870%</u>	<u>0.07050463%</u>	
Change in Proportionate Share	<u>0.00032270%</u>	<u>0.00173616%</u>	
Proportionate Share of the Net OPEB Liability	\$1,933,060	\$2,750,831	\$4,683,891
OPEB Expense	\$115,705	(\$826,141)	(\$710,436)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences Between Expected and Actual Experience	\$0	\$158,795	\$158,795
Changes in Proportionate Share and Difference Between School District Contributions and Proportionate Share of Contributions	986	79,586	80,572
School District Contributions Subsequent to the Measurement Date	<u>53,530</u>	<u>0</u>	<u>53,530</u>
Total Deferred Outflows of Resources	<u>\$54,516</u>	<u>\$238,381</u>	<u>\$292,897</u>
Deferred Inflows of Resources			
Changes of Assumptions	\$183,438	\$221,588	\$405,026
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	<u>5,105</u>	<u>117,577</u>	<u>122,682</u>
Total Deferred Inflows of Resources	<u>\$188,543</u>	<u>\$339,165</u>	<u>\$527,708</u>

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 15 - Postemployment Benefits (continued)

\$53,530 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows.

Fiscal Year Ended June 30,	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	(\$67,382)	(\$26,596)	(\$93,978)
2020	(67,382)	(26,596)	(93,978)
2021	(51,516)	(26,596)	(78,112)
2022	(1,277)	(26,597)	(27,874)
2023	0	2,798	2,798
2024	0	2,803	2,803
Total	<u>(\$187,557)</u>	<u>(\$100,784)</u>	<u>(\$288,341)</u>

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74 as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modification as actual results are compared with past expectations and new estimates are made about the future.

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 15 - Postemployment Benefits (continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below.

Wage Inflation	3 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense including inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.5 to 5 percent
Pre-Medicare	7.5 to 5 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projections with Scale BB; 120 percent of male rates and 110 percent of female rates and the RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates, set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five year experience study. The most recent study covers fiscal years 2010 through 2015 and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.5 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a ten year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The SERS Health Care Plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 14.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 15 - Postemployment Benefits (continued)

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017, was 3.63 percent. The discount rate used to measure the total OPEB liability prior to June 30, 2017, was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the retirement system at the State statute contribution rate of 2 percent of projected covered employee payroll each year which includes a 1.5 percent payroll surcharge and .5 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024, and the Fidelity General Obligation Twenty-Year Municipal Bond Index Rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rate - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS and what SERS' net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.63 percent) or one percentage point higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are one percentage point lower (6.5 percent decreasing to 4 percent) and one percentage point higher (8.5 percent decreasing to 6 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's Proportionate Share of the Net OPEB Liability	\$2,334,417	\$1,933,060	\$1,615,084
	1% Decrease (6.5% Decreasing to 4%)	Current Trend Rate (7.53% Decreasing to 5%)	1% Increase (8.5% Decreasing to 6%)
School District's Proportionate Share of the Net OPEB Liability	\$1,568,534	\$1,933,060	\$2,415,519

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 15 - Postemployment Benefits (continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below.

Inflation	2.5 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 percent at age 65
Investment Rate of Return	7.45 percent net of investment expenses, including inflation
Payroll Increases	3 percent
Cost of Living Adjustments (COLA)	0 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees, the mortality rates were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using Mortality Improvement Scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011, through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)", and the long-term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal, and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B reimbursements was extended to January 2020.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 15 - Postemployment Benefits (continued)

The STRS Health Care Plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 14.

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the Health Care Fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036, and the Bond Buyer Twenty-Year Municipal Bond Rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer Twenty-Year Municipal Bond Rate of 3.58 percent for the unfunded benefit payments was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long-term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer Twenty-Year Municipal Bond Rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and the Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's Proportionate Share of the Net OPEB Liability	\$3,692,946	\$2,750,831	\$2,006,252
	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	\$1,911,159	\$2,750,831	\$3,855,936

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 16 - Other Employee Benefits

A. Compensated Absences

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

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

B. Health Care Benefits

The School District offers employee medical benefits through Medical Mutual. 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. The School District offers life insurance to all employees through American United Life. Dental insurance is offered to all employees through Delta Dental.

Note 17 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2018 were as follows:

	Restated Balance at 6/30/17	Additions	Reductions	Balance at 6/30/18	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
General Obligation Bonds					
School Facilities Construction and Improvement FY 2009					
Serial Bonds 3-4.5%	\$680,000	\$0	\$300,000	\$380,000	\$380,000
Capital Appreciation Bonds 13.12%	365,000	0	0	365,000	0
Accretion on Capital Appreciation Bonds	744,064	146,042	0	890,106	0
Bond Premium	41,281	0	11,851	29,430	0
Bond Discount	(16,416)	0	(4,713)	(11,703)	0
Total School Facilities Construction and Improvement FY2009	1,813,929	146,042	307,138	1,652,833	380,000

(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 17 - Long-Term Obligations (continued)

	Restated Balance at 6/30/17	Additions	Reductions	Balance at 6/30/18	Amounts Due Within One Year
Governmental Activities (continued)					
General Long-Term Obligations (continued)					
General Obligation Bonds (continued)					
FY2016A Refunding					
Serial Bonds (1-4%)	\$6,870,000	\$0	\$125,000	\$6,745,000	\$125,000
Term Bonds (3-3.5%)	1,205,000	0	0	1,205,000	0
Capital Appreciation Bonds (18.74-18.48%)	140,000	0	0	140,000	0
Accretion on Capital Appreciation Bonds	54,534	37,915	0	92,449	0
Bond Premium	1,365,552	0	20,778	1,344,774	0
Total FY2016A Refunding	<u>9,635,086</u>	<u>37,915</u>	<u>145,778</u>	<u>9,527,223</u>	<u>125,000</u>
FY2016B Refunding					
Serial Bonds (1-4%)	3,845,000	0	70,000	3,775,000	70,000
Capital Appreciation Bonds (10.24%)	250,000	0	0	250,000	0
Accretion on Capital Appreciation Bonds	34,553	29,884	0	64,437	0
Bond Premium	570,740	0	9,756	560,984	0
Total FY2016B Refunding	<u>4,700,293</u>	<u>29,884</u>	<u>79,756</u>	<u>4,650,421</u>	<u>70,000</u>
Total General Obligation Bonds	<u>16,149,308</u>	<u>213,841</u>	<u>532,672</u>	<u>15,830,477</u>	<u>575,000</u>
Net Pension Liability					
SERS	5,173,811	0	929,281	4,244,530	0
STRS	23,018,878	0	6,270,352	16,748,526	0
Total Net Pension Liability	<u>28,192,689</u>	<u>0</u>	<u>7,199,633</u>	<u>20,993,056</u>	<u>0</u>
Net OPEB Liability					
SERS	2,043,886	0	110,826	1,933,060	0
STRS	3,677,756	0	926,925	2,750,831	0
Total Net OPEB Liability	<u>5,721,642</u>	<u>0</u>	<u>1,037,751</u>	<u>4,683,891</u>	<u>0</u>
Compensated Absences Payable	<u>986,374</u>	<u>128,065</u>	<u>28,038</u>	<u>1,086,401</u>	<u>98,422</u>
Total Governmental Activities Long-Term Obligations	<u>\$51,050,013</u>	<u>\$341,906</u>	<u>\$8,798,094</u>	<u>\$42,593,825</u>	<u>\$673,422</u>

FY 2009 School Facilities Construction and Improvement Bonds - 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 fiscal year period, with final maturity during fiscal year 2037. During fiscal year 2016, all of the term bonds were refunded, in the amount of \$12,665,000. The remaining bonds will be retired through the Bond Retirement debt service fund.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 17 - Long-Term Obligations (continued)

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

The 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 2018, \$146,042 was accreted on the capital appreciation bonds for a total value of \$1,255,106 at fiscal year end.

FY 2016A Refunding School Improvement Bonds - On August 27, 2015, the School District issued general obligation bonds, in the amount of \$8,465,000, to partially refund bonds previously issued in fiscal year 2009 for constructing, renovating, and adding to buildings; furnishing and equipping buildings; and improving School District sites. The refunding bond issue included serial, term, and capital appreciation bonds, in the original amount of \$7,120,000, \$1,205,000, and \$140,000, respectively. The bonds were issued for a twenty-one fiscal year period, with maturity in fiscal year 2037. The bonds are being retired through the Bond Retirement debt service fund.

The bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2021	\$135,000
2022	145,000

The remaining principal, in the amount of \$145,000, will be paid at stated maturity on December 1, 2023.

The bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2024	\$150,000
2025	150,000

The remaining principal, in the amount of \$155,000, will be paid at stated maturity on December 1, 2026.

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

Year	Amount
2027	\$160,000

The remaining principal, in the amount of \$165,000, will be paid at stated maturity on December 1, 2028.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 17 - Long-Term Obligations (continued)

The serial bonds are subject to prior redemption on or after December 1, 2023, by and at the sole option of the School District, either in whole on any date or in part on any interest payment date, and in integral multiples of \$5,000, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2030 and 2031. The maturity amount of the bonds is \$1,930,000. For fiscal year 2018, \$37,915 was accreted on the capital appreciation bonds for a total value of \$232,449 at fiscal year end.

As of June 30, 2018, \$8,465,000 of the refunded bonds was still outstanding.

FY 2016B Refunding School Improvement Bonds - On March 15, 2016, the School District issued general obligation bonds, in the amount of \$4,200,000, to partially refund bonds previously issued in fiscal year 2009 for constructing, renovating, and adding to buildings; furnishing and equipping buildings; and improving School District sites. The refunding bond issue included serial and capital appreciation bonds, in the original amount of \$3,950,000 and \$250,000, respectively. The bonds were issued for a thirteen fiscal year period, with maturity in fiscal year 2029. The bonds are being retired through the Bond Retirement debt service fund.

The serial bonds are subject to prior redemption on or after December 1, 2023, by and at the sole option of the School District, either in whole on any date or in part on any interest payment date, and in integral multiples of \$5,000, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal year 2024. The maturity amount of the bonds is \$540,000. For fiscal year 2018, \$29,884 was accreted on the capital appreciation bonds for a total value of \$314,437 at fiscal year end.

As of June 30, 2018, \$4,200,000 of the refunded bonds was still outstanding.

There is no repayment schedule for the net pension/OPEB liability; however, employer pension contributions are made from the General Fund and the Food Service special revenue fund.

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

The School District's overall debt margin was \$9,723,827 with an unvoted debt margin of \$237,741 at June 30, 2018.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 17 - Long-Term Obligations (continued)

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2018, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds				
	Serial	Term	Capital Appreciation	Interest	Total
2019	\$575,000	\$0	\$0	\$426,500	\$1,001,500
2020	200,000	0	100,000	729,525	1,029,525
2021	205,000	0	90,000	750,825	1,045,825
2022	70,000	135,000	90,000	806,400	1,101,400
2023	70,000	145,000	85,000	820,975	1,120,975
2024-2028	2,675,000	760,000	250,000	2,055,225	5,740,225
2029-2033	2,715,000	165,000	140,000	2,961,600	5,981,600
2034-2037	4,390,000	0	0	360,200	4,750,200
	<u>\$10,900,000</u>	<u>\$1,205,000</u>	<u>\$755,000</u>	<u>\$8,911,250</u>	<u>\$21,771,250</u>

Note 18 - Fund Balance

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

Fund Balance	General	Bond Retirement	Permanent Improvement	Other Governmental	Total Governmental Funds
Nonspendable for:					
Materials and Supplies Inventory	\$45,985	\$0	\$0	\$3,335	\$49,320
Prepaid Items	28,187	0	0	1,195	29,382
Total Nonspendable	<u>74,172</u>	<u>0</u>	<u>0</u>	<u>4,530</u>	<u>78,702</u>

(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 18 - Fund Balance (continued)

Fund Balance	General	Bond Retirement	Permanent Improvement	Other Governmental	Total Governmental Funds
Restricted for:					
Athletics and Music	\$0	\$0	\$0	\$115,579	\$115,579
Building Construction	0	0	0	13,985	13,985
Bus Purchase	2,170	0	0	0	2,170
Debt Retirement	0	1,187,105	0	0	1,187,105
Education Management Information Systems	0	0	0	1,655	1,655
Food Service Operations	0	0	0	430,330	430,330
Network Connectivity	0	0	0	5,400	5,400
School Facilities Maintenance	0	0	0	951,012	951,012
Total Restricted	2,170	1,187,105	0	1,517,961	2,707,236
Committed for:					
Building Construction	0	0	1,398,437	0	1,398,437
Assigned for:					
Educational Activities	18,281	0	0	0	18,281
Extracurricular Activities	181	0	0	0	181
Projected Budget Shortage	465,370	0	0	0	465,370
Unpaid Obligations	9,644	0	0	0	9,644
Total Assigned	493,476	0	0	0	493,476
Unassigned (Deficit)	6,258,348	0	0	(101,152)	6,157,196
Total Fund Balance	\$6,828,166	\$1,187,105	\$1,398,437	\$1,421,339	\$10,835,047

Note 19 - Set Asides

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 19 - Set Asides (continued)

The following cash basis information identifies the change in the fund balance set aside for capital improvements during fiscal year 2018.

	<u>Capital Improvements</u>
Balance June 30, 2017	\$0
Current Year Set Aside Requirement	327,449
Current Year Offsets	<u>(327,449)</u>
Balance June 30, 2018	<u>\$0</u>

Note 20 - Interfund Transfers

During fiscal year 2018, the General Fund made transfers, in the amount of \$200,000, to the Permanent Improvement capital projects fund as debt payments came due. Other governmental funds made transfers, in the amount of \$40,082, to other governmental funds to close out the Ohio School Facilities Project from prior years.

Note 21 - Jointly Governed Organizations

A. Metropolitan Educational Technology Association

The School District is a participant in the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an association of public school districts within the boundaries of Athens, Crawford, Delaware, Erie, Fairfield, Franklin, Jackson, Knox, Licking, Madison, Mahoning, Marion, Morrow, Muskingum, Pickaway, Richland, 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 META consists of twelve members of participating school districts. During fiscal year 2018, the School District paid \$50,800 to META for various services.

META also serves as a purchasing cooperative made up of school districts, libraries, and related agencies to obtain prices for quality merchandise and services commonly used by the participants. All participants must pay all fees, charges, or other assessments related to this activity.

Financial information can be obtained from the Metropolitan Educational Technology Association, 100 Executive Drive, Marion, Ohio 43302.

Note 21 - Jointly Governed Organizations (continued)

B. Tri-Rivers Joint Vocational School

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

Note 22 - 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 23 - 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 24 - 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, 2018.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Note 24 - Contingencies (continued)

B. School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As of the date of this report, ODE adjustments for fiscal year 2018 have been finalized and resulted in a liability of the School District of \$4,410. This amount was not reported on the financial statements.

C. Litigation

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

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

	2018	2017	2016	2015
School District's Proportion of the Net Pension Liability	0.07104080%	0.07068940%	0.07152490%	0.07557300%
School District's Proportionate Share of the Net Pension Liability	\$4,244,530	\$5,173,811	\$4,081,279	\$3,824,707
School District's Employee Payroll	\$2,359,107	\$2,200,021	\$2,158,264	\$2,011,244
School District's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	179.92%	235.17%	189.10%	190.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%

(1) Information prior to 2014 is not available.

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

See Accompanying Notes to the Required Supplementary Information

2014

0.07557300%

\$4,494,084

\$2,155,656

208.48%

65.52%

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

	2018	2017	2016	2015
School District's Proportion of the Net Pension Liability	0.70504630%	0.06876847%	0.06853702%	0.06882538%
School District's Proportionate Share of the Net Pension Liability	\$16,748,526	\$23,018,878	\$18,941,627	\$16,740,714
School District's Employee Payroll	\$7,819,179	\$7,277,479	\$7,114,064	\$7,145,508
School District's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	214.20%	316.30%	266.26%	234.28%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%

(1) Information prior to 2014 is not available.

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

See Accompanying Notes to the Required Supplementary Information

2014

0.06882538%

\$19,941,429

\$6,841,615

291.47%

69.30%

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

	2018	2017
School District's Proportion of the Net OPEB Liability	0.07202870%	0.07170600%
School District's Proportionate Share of the Net OPEB Liability	\$1,933,060	\$2,043,886
School District's Employee Payroll	\$2,359,107	\$2,200,021
School District's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll	81.94%	92.90%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

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

See Accompanying Notes to the Required Supplementary Information

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

	2018	2017
School District's Proportion of the Net OPEB Liability	0.07050463%	0.06876847%
School District's Proportionate Share of the Net OPEB Liability	\$2,750,831	\$3,677,756
School District's Employee Payroll	\$7,819,179	\$7,277,479
School District's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll	35.18%	50.54%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See Accompanying Notes to the Required Supplementary Information

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net Pension Liability				
Contractually Required Contribution	\$324,369	\$330,275	\$308,003	\$284,459
Contributions in Relation to the Contractually Required Contribution	<u>(324,369)</u>	<u>(330,275)</u>	<u>(308,003)</u>	<u>(284,459)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Employee Payroll	\$2,402,733	\$2,359,107	\$2,200,021	\$2,158,264
Contributions as a Percentage of Employee Payroll	13.50%	14.00%	14.00%	13.18%
Net OPEB Liability				
Contractually Required Contribution (2)	\$53,530	\$38,974	\$36,583	\$55,963
Contributions in Relation to the Contractually Required Contribution	<u>(53,530)</u>	<u>(38,974)</u>	<u>(36,583)</u>	<u>(55,963)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Employee Payroll	<u>2.23%</u>	<u>1.65%</u>	<u>1.66%</u>	<u>2.59%</u>
Total Contributions as a Percentage of Employee Payroll (2)	<u>15.73%</u>	<u>15.65%</u>	<u>15.66%</u>	<u>15.77%</u>

(1) The School District's covered payroll is the same for Pension and OPEB

(2) Includes Surcharge

See Accompanying Notes to the Required Supplementary Information

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$278,758	\$298,343	\$289,701	\$278,887	\$291,036	\$211,508
<u>(278,758)</u>	<u>(298,343)</u>	<u>(289,701)</u>	<u>(278,887)</u>	<u>(291,036)</u>	<u>(211,508)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,011,244	\$2,155,656	\$2,153,913	\$2,218,671	\$2,149,452	\$2,149,472
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
\$41,733	\$41,235	\$49,304	\$67,401	\$43,862	\$134,464
<u>(41,733)</u>	<u>(41,235)</u>	<u>(49,304)</u>	<u>(67,401)</u>	<u>(43,862)</u>	<u>(134,464)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>2.07%</u>	<u>1.91%</u>	<u>2.29%</u>	<u>3.04%</u>	<u>2.04%</u>	<u>6.26%</u>
<u>15.93%</u>	<u>15.75%</u>	<u>15.74%</u>	<u>15.61%</u>	<u>15.58%</u>	<u>16.10%</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net Pension Liability				
Contractually Required Contribution	\$1,081,532	\$1,094,685	\$1,018,847	\$995,969
Contributions in Relation to the Contractually Required Contribution	<u>(1,081,532)</u>	<u>(1,094,685)</u>	<u>(1,018,847)</u>	<u>(995,969)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Employee Payroll	\$7,725,229	\$7,819,179	\$7,277,479	\$7,114,064
Contributions as a Percentage of Employee Payroll	14.00%	14.00%	14.00%	14.00%
Net OPEB Liability				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Employee Payroll	0.00%	0.00%	0.00%	0.00%
Total Contributions as a Percentage of Employee Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

See Accompanying Notes to the Required Supplementary Information

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$928,916	\$889,410	\$874,963	\$901,431	\$904,104	\$894,679
<u>(928,916)</u>	<u>(889,410)</u>	<u>(874,963)</u>	<u>(901,431)</u>	<u>(904,104)</u>	<u>(894,679)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$7,145,508	\$6,841,615	\$6,730,485	\$6,934,085	\$6,954,646	\$6,882,146
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$71,455	\$68,416	\$67,305	\$69,341	\$69,546	\$68,821
<u>(71,455)</u>	<u>(68,416)</u>	<u>(67,305)</u>	<u>(69,341)</u>	<u>(69,546)</u>	<u>(68,821)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

Highland Local School District
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc COLA. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below.

	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016 and Prior</u>
Wage Inflation	3 percent	3.25 percent
Future Salary Increases, Including inflation	3.5 percent to 18.2 percent	4 percent to 22 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation

Beginning with fiscal year 2017, mortality assumptions use mortality rates that were based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. Amounts reported for fiscal year 2016 and prior use mortality assumptions that were based on the 1994 Group Annuity Mortality Table set back one year for both males and females. Special mortality tables were used the period after disability retirement.

Changes in Assumptions - STRS

Amounts reported for fiscal year 2018 incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below.

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017 and Prior</u>
Inflation	2.5 percent	2.75 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost of Living Adjustments (COLA)	0 percent effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date

Highland Local School District
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

For fiscal year 2018, postretirement mortality rates for healthy retirees were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. Postretirement disabled mortality rates were based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using Mortality Improvement Scale MP-2016. Preretirement mortality rates were based on the RP-2014 Employee Mortality Table projected forward generationally using Mortality Improvement Scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages were set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty were set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

Net OPEB Liability

Changes in Assumptions - SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below.

Municipal Bond Index Rate	
Fiscal Year 2018	3.56 percent
Fiscal Year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense including inflation	
Fiscal Year 2018	3.63 percent
Fiscal Year 2017	2.98 percent

Changes in Assumptions - STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)", and the long-term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal, and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution)			
National School Lunch Program	10.555	N/A	\$ 44,184
Cash Assistance			
School Breakfast Program	10.553	N/A	94,313
National School Lunch Program	10.555	N/A	296,974
Cash Assistance Subtotal			<u>391,287</u>
Total Child Nutrition Cluster			<u>435,471</u>
Total U.S. Department of Agriculture			<u>435,471</u>
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Title I Grants to Local Educational Agencies	84.010	N/A	285,693
Improving Teacher Quality State Grants	84.367	N/A	58,254
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	N/A	315,904
Special Education Preschool Grants	84.173	N/A	12,476
Total Special Education Cluster (IDEA)			<u>328,380</u>
Total Passed Through Ohio Department of Education			<u>672,327</u>
Total U.S. Department of Education			<u>672,327</u>
Total Expenditures of Federal Awards			<u>\$ 1,107,798</u>

The accompanying notes are an integral part of this schedule.

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Highland Local School District (the School District's) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - 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 E – 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.

OHIO AUDITOR OF STATE KEITH FABER



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
Marengo, Ohio 43334

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, the business-type activities, each major fund, and the aggregate remaining fund information of the Highland Local School District, Morrow County, (the School District) as of and for the year ended June 30, 2018, 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 March 11, 2019, wherein we noted the School District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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 opinions 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 report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 11, 2019

OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Highland Local School District
Morrow County
6506 State Route 229
Marengo, Ohio 43334

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited the Highland Local School District's (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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 each of 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, 2018.

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 the Uniform Guidance, 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 over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 11, 2019

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

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 weaknesses in internal control 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 weaknesses in internal control 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 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster (IDEA); Title I CFDA # 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR § 200.520?	No

**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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OHIO AUDITOR OF STATE KEITH FABER



HIGHLAND LOCAL SCHOOL DISTRICT

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 28, 2019**