



Dave Yost • Auditor of State

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Harrison Hills City School District
Harrison County
730 Peppard Avenue
Cadiz, Ohio 43907

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison Hills City School District, Harrison County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison Hills City School District, Harrison County, Ohio, as of June 30, 2017, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards (the Schedule) 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 Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the Table of Contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

January 10, 2018

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The management's discussion and analysis of the Harrison Hills City School District's (the "District") financial performance provides an overall review of the District's financial activities for the year ended June 30, 2017, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- The total net cash position of the District increased \$10,292,767 or 20.56% from fiscal year 2016.
- General cash receipts accounted for \$30,646,950 or 86.50% of total governmental activities cash receipts. Program specific cash receipts accounted for \$4,781,303 or 13.50% of total governmental activities cash receipts.
- The District had \$25,135,486 in cash disbursements related to governmental activities; \$4,781,303 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes) and entitlements not restricted of \$30,646,950 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, the building fund, the classroom facilities fund, and the capital projects fund. The general fund had cash receipts and other financing sources of \$24,646,183 in 2017. The cash disbursements and other financing uses of the general fund, totaled \$25,693,025 in 2017. The general fund's cash balance decreased \$1,046,842 from 2016 to 2017.
- The building fund has \$77,340 in cash receipts and \$234,066 in cash disbursements. The building fund ended fiscal year 2017 with a cash balance of \$8,349,539.
- The classroom facilities fund has \$4,341,909 in cash receipts and \$2,060,782 in cash disbursements. The classroom facilities fund ended fiscal year 2017 with a cash balance of \$23,003,722.
- The capital projects fund has \$13,669 in cash receipts and \$7,925,000 in transfers in. The classroom facilities fund ended fiscal year 2017 with a cash balance of \$7,938,669. The capital projects fund was created during fiscal year 2017 to account for District capital projects that are not co-funded as part of the OFCC construction project.

Using this Cash Basis Basic Financial Statements (BFS)

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

The statement of net position - cash basis and statement of activities - cash basis provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis finances. Fund financial statements provide the next 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, the building fund, the classroom facilities fund, and the capital projects fund are the most significant governmental funds.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Position – cash basis and the Statement of Activities- cash basis

The statement of net position - cash basis and the statement of activities - cash basis answer the question, "How did we do financially during 2017?" These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the District's net cash position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the District as a whole, the cash basis financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and the statement of activities - cash basis, the governmental activities include the District's programs and services including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The statement of net position - cash basis and the statement of activities - cash basis can be found on pages 17-18 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, the building fund, the classroom facilities fund, and the capital projects fund. The analysis of the District's major governmental funds begins on page 12.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. The governmental fund statements can be found on pages 19-23 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for health and dental self-insurance. The basic proprietary fund financial statements can be found on pages 24-25 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District's only fiduciary funds are a private-purpose trust fund and agency funds. The basic fiduciary fund financial statements can be found on pages 26-27 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-58 of this report.

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Government-Wide Financial Analysis

Recall that the statement of net position - cash basis provides the perspective of the District as a whole.

The table below provides a summary of the District's net position at June 30, 2017 and June 30, 2016.

	Change in Net Position	
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Assets</u>		
Equity in pooled cash, cash equivalents, and investments	\$ 59,118,259	\$ 48,905,167
Cash with fiscal agent	<u>1,234,110</u>	<u>1,154,435</u>
Total assets	<u>60,352,369</u>	<u>50,059,602</u>
<u>Net Cash Position</u>		
Restricted	36,612,771	33,291,506
Unrestricted	<u>23,739,598</u>	<u>16,768,096</u>
Total net cash position	<u>\$ 60,352,369</u>	<u>\$ 50,059,602</u>

The total net position of the District increased \$10,292,767, which represents a 20.56% increase from fiscal year 2016. The balance of government-wide unrestricted net position of \$23,739,598 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net cash position for fiscal year 2017 and 2016. Overall, when comparing total cash receipts from FY16 to FY17, it appears that cash receipts decreased by \$21,922,621. However, this is misleading due to the district passing a bond levy in November 2015 and selling the bonds in March of 2016. At that time, the district received in \$28,280,000.00 in bond proceeds and \$1,068,360 in premiums on the sale of bonds.

The increase in cash disbursements was caused by several factors. The District incurred significant capital outlay expenses for the building project, land purchase for the new facility, and bus purchases. Debt service disbursements increased as the District paid off its lease agreement with the County for the transportation center. Instruction and support service disbursements increased due to salary increases and substitute costs. With the increase in wages and insurance premium costs, fringe benefit costs also increased. In addition, the District entered into a food service contract with Nutrition Group, which contributed to an increase in food service disbursements.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Change in Net Position	
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
Cash Receipts:		
Program cash receipts:		
Charges for services and sales	\$ 911,867	\$ 827,097
Operating grants and contributions	3,869,436	3,865,367
Capital grants and contributions	<u>-</u>	<u>100</u>
Total program cash receipts	<u>4,781,303</u>	<u>4,692,564</u>
General cash receipts:		
Property and other taxes	15,642,363	11,317,162
Unrestricted grants	10,245,643	10,686,965
Sale of bonds	-	28,280,000
Premium on bonds	-	1,068,360
Restricted grants:		
Ohio facilities construction commission	4,153,432	928,318
Investment earnings	498,597	87,899
Other	<u>106,915</u>	<u>289,606</u>
Total general cash receipts	<u>30,646,950</u>	<u>52,658,310</u>
Total cash receipts	<u>35,428,253</u>	<u>57,350,874</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Change in Net Position (Continued)

	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
Cash Disbursements:		
Instruction:		
Regular	\$ 8,198,883	\$ 8,016,323
Special	2,416,370	2,162,058
Vocational	254,121	261,172
Other	567,279	636,077
Support services:		
Pupil	1,198,091	1,261,229
Instructional staff	417,562	762,828
Board of education	192,561	203,487
Administration	1,698,703	1,702,233
Fiscal	939,421	826,132
Operations and maintenance	1,098,910	1,102,560
Pupil transportation	1,455,129	1,488,178
Central	73,235	97,636
Operation of non instructional services:		
Other non-instructional services	4,183	-
Food service operations	699,512	649,245
Extracurricular	428,470	399,250
Facilities acquisition and construction	3,985,666	221,729
Debt service:		
Principal retirement	248,664	57,231
Interest and fiscal charges	1,258,726	1,495
Bond issuance costs	-	264,510
Total cash disbursements	<u>25,135,486</u>	<u>20,113,373</u>
Change in net position	10,292,767	37,237,501
Net position at beginning of year	<u>50,059,602</u>	<u>12,822,101</u>
Net position at end of year	<u>\$ 60,352,369</u>	<u>\$ 50,059,602</u>

Governmental Activities

Governmental net position increased by \$10,292,767 in fiscal year 2017 from fiscal year 2016. Total governmental cash disbursements of \$25,135,486 were offset by program cash receipts of \$4,781,303 and general cash receipts of \$30,646,950. Program receipts supported 19.02% of the total governmental cash disbursements.

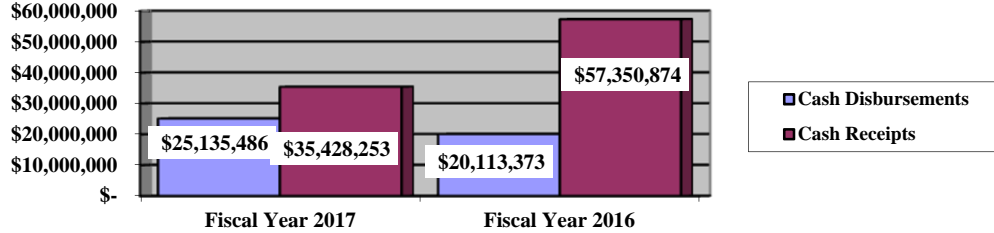
Property taxes and intergovernmental grants represent 84.80% of total governmental receipts. Real estate property is reappraised every six years.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2017 and 2016.

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



The statement of activities - cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

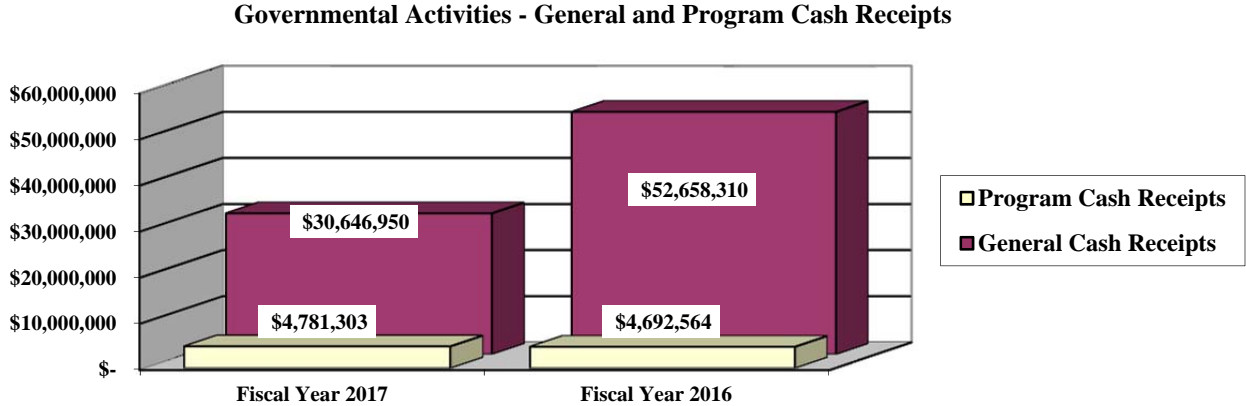
	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
Cash disbursements:				
Instruction:				
Regular	\$ 8,198,883	\$ 7,256,596	\$ 8,016,323	\$ 7,158,630
Special	2,416,370	966,087	2,162,058	739,588
Vocational	254,121	181,168	261,172	178,928
Other	567,279	82,980	636,077	115,085
Support services:				
Pupil	1,198,091	567,521	1,261,229	718,154
Instructional staff	417,562	304,657	762,828	594,713
Board of education	192,561	184,272	203,487	190,926
Administration	1,698,703	1,634,992	1,702,233	1,644,119
Fiscal	939,421	934,843	826,132	819,416
Operations and maintenance	1,098,910	1,060,593	1,102,560	1,071,174
Pupil transportation	1,455,129	1,350,438	1,488,178	1,350,460
Central	73,235	71,952	97,636	89,489
Operation of non instructional services:				
Other non-instructional services	4,183	4,183	-	-
Food service operations	699,512	39,411	649,245	(17,220)
Extracurricular	428,470	221,696	399,250	232,162
Facilities acquisition and construction	3,985,666	3,985,404	221,729	211,949
Debt service:				
Principal retirement	248,664	248,664	57,231	57,231
Interest and fiscal charges	1,258,726	1,258,726	1,495	1,495
Bond issuance costs	-	-	264,510	264,510
Total	<u>\$ 25,135,486</u>	<u>\$ 20,354,183</u>	<u>\$ 20,113,373</u>	<u>\$ 15,420,809</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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(UNAUDITED)

The dependence upon general cash receipts for governmental activities is apparent; with 80.98% of cash disbursements supported through taxes and other general cash receipts during 2017.

The graph below presents the District's governmental activities cash receipts for fiscal years 2017 and 2016.



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The District's governmental funds are accounted for using the cash basis of accounting.

The District's governmental funds reported a combined fund balance of \$59,118,259, which is \$10,213,092 greater than last year's total of \$48,905,167. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017 and June 30, 2016, for all major and nonmajor governmental funds.

	Fund Balance June 30, 2017	Fund Balance June 30, 2016	Change
Major fund:			
General	\$ 14,566,819	\$ 15,613,661	\$ (1,046,842)
Building	8,349,539	8,506,265	(156,726)
Classroom Facilities	23,003,722	20,722,595	2,281,127
Capital Projects	7,938,669	-	7,938,669
Other nonmajor governmental funds	5,259,510	4,062,646	1,196,864
Total	\$ 59,118,259	\$ 48,905,167	\$ 10,213,092

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

General Fund

The general fund's fund balance decreased \$1,046,842 from 2016 to 2017. The general fund had cash receipts and other financing sources of \$24,646,183 in 2017.

General fund cash receipts increased 11.63% from 2016 to 2017. This was mainly due to property tax collections increasing approximately 30%. The increase in tax collections relates to the personal property public utility collections being up because of the gas and oil industry. The table that follows assists in illustrating the cash receipts of the general fund.

	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Receipts:</u>			
Taxes	\$ 12,229,182	\$ 9,231,987	32.47 %
Tuition	572,124	469,580	21.84 %
Earnings on investments	189,062	52,280	261.63 %
Extracurricular	49,317	48,156	2.41 %
Other local revenues	94,178	339,036	(72.22) %
Intergovernmental	<u>11,145,023</u>	<u>11,608,072</u>	(3.99) %
Total	<u>\$ 24,278,886</u>	<u>\$ 21,749,111</u>	11.63 %

The cash disbursements and other financing uses of the general fund, totaled \$25,693,025 in 2017. Total general fund cash disbursements increased 13.84% from the prior year. There were increases in instruction and support service disbursements in part due to salary increases and substitute costs. This rose by 3.70%. Naturally, with the increase in wages and insurance premium costs, fringe benefits increased by 12.98%. Capital outlay increased because the District purchased property for a new facility, purchased busses, and paid off a lease agreement with the County.

The table that follows assists in illustrating the cash disbursements of the general fund.

	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Disbursements</u>			
Instruction	\$ 10,005,642	\$ 9,056,650	10.48 %
Support services	5,923,224	5,863,258	1.02 %
Operation of non instruction	3,044	3,664	(16.92) %
Extracurricular	273,020	248,832	9.72 %
Facilities acquisition and construction	1,251,969	158,513	689.82 %
Debt service	<u>31,394</u>	<u>31,495</u>	(0.32) %
Total	<u>\$ 17,488,293</u>	<u>\$ 15,362,412</u>	13.84 %

Building Fund

The building fund has \$77,340 in cash receipts and \$234,066 in cash disbursements. The building fund ended fiscal year 2017 with a cash balance of \$8,349,539. The disbursements in this fund are capital outlay for the District's locally funded initiatives for the facilities construction project.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Classroom Facilities

The classroom facilities fund has \$4,341,909 in cash receipts and \$2,060,782 in cash disbursements. The classroom facilities fund ended fiscal year 2017 with a cash balance of \$23,003,722. The cash receipts are interest earnings and State grants from the OFCC for the District's construction project.

Capital Projects

The capital projects fund has \$13,669 in cash receipts and \$7,925,000 in transfers in. The classroom facilities fund ended fiscal year 2017 with a cash balance of \$7,938,669. The capital projects fund was created during fiscal year 2017 to account for District capital projects that are not co-funded as part of the OFCC construction project.

Budgeting Highlights - General Fund

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

During the course of fiscal year 2017, the District amended its general fund budget several times. For the general fund, original budgeted receipts and other financing sources were \$19,767,480 they were increased to \$24,565,876 in the final budgeted receipts. Actual receipts and other financing sources for fiscal year 2017 were \$24,602,963. This represents a \$37,087 increase over final budgeted receipts.

General fund original appropriations (appropriated cash disbursements including other financing uses) of \$25,321,689 were increased to \$28,143,043 in the final appropriations. The actual budget basis disbursements for fiscal year 2017 totaled \$26,565,521, which was \$1,577,522 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

The District had the following long-term obligations outstanding at June 30, 2017 and 2016.

	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
Notes payable	\$ 360,000	\$ 390,000
School facilities construction and improvement bonds	28,280,000	28,280,000
Capital lease obligation	<u>-</u>	<u>218,574</u>
Total long-term obligations	<u>\$ 28,640,000</u>	<u>\$ 28,888,574</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Current Financial Related Activities

As the Board of Education continues to accomplish and set new goals, stated in the District's Continuous Improvement Plan (CIP), meeting the needs of the students continues to be their priority. Through the Ohio Improvement Process, the district is able to collect data to establish the needs of the district. The CIP is then developed based off these needs. The CIP has been instrumental in helping the District to plan financially in order to improve academics, maintain buildings and grounds, and other areas related to the District's operations.

In order to achieve these goals, it has been important that a high standard of accountability be continued and prudent fiscal management maintained.

The District was successful in ending the 2017 fiscal year in the black. It has been through the efforts of the board of education, administration, certificated and classified staff working together that the District has been successful in reaching financial stability. The certificated staff's negotiated agreement that began July 1, 2016 and will end June 30, 2018. There was a 4% increase on the base for fiscal year 2016 and a 3% increase for fiscal years 2017 and 2018. There were no changes to the health insurance provision and will be revisited during the next negotiations when the District will have a better understanding of the "Cadillac Tax" and its impact. The classified staff's agreement expired June 30, 2017. Through amiable negotiations in the spring, they have a new contract for the period of July 1, 2017 through June 30, 2020. They received a 4% increase for fiscal years 2018 and 2019; and a 3% increase for 2020. The most current five year forecast for fiscal years 2017 through 2021, shows the District ending in the black each year. The forecast is only a projection based on the most current information at the time of completion and is subject to change.

One of the greatest impacts to the District is state foundation revenue. Presently, state funding represents approximately 41% of the general fund revenue. A new budget was approved at the state for schools for fiscal years 2018 and 2019. There is no projected increase in state funding for the District, but instead a decrease. Another impact on the revenue for the District is related to natural gas fracking in the area. The mineral values for the District are continuing to rise, however these values are being watched closely. Related Board of Revision Appeals will impact future values. The District's valuation could possibly have a negative impact on state funding as early as fiscal year 2018. It is projected that these revenues will grow over the next 3 to 5 years.

The Board of Education and administration will continue to carefully and prudently manage the District's resources in order to continue to meet the growing needs of its students. At the same time, the financial condition of the District will be monitored closely.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Roxane Harding, Treasurer, Harrison Hills City School District, 730 Peppard Ave., Cadiz, OH 43907.

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash, cash equivalents, and investments	\$ 59,118,259
Cash with fiscal agent	<u>1,234,110</u>
Total assets.	<u>60,352,369</u>
 Net cash position:	
Restricted for:	
Capital projects	32,759,520
Permanent fund - expendable	37,286
Permanent fund - nonexpendable	286,180
Classroom facilities maintenance	365,620
Debt service.	2,838,811
State funded programs.	2,808
Federally funded programs	9,400
Student activities	20,894
Other purposes	292,252
Unrestricted	<u>23,739,598</u>
Total net cash position.	<u>\$ 60,352,369</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Cash Disbursements	Program Cash Receipts			Net (Disbursement) Receipts and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 8,198,883	\$ 586,848	\$ 355,439	\$ -	\$ (7,256,596)
Special	2,416,370	-	1,450,283	-	(966,087)
Vocational	254,121	-	72,953	-	(181,168)
Other	567,279	-	484,299	-	(82,980)
Support services:					
Pupil.	1,198,091	-	630,570	-	(567,521)
Instructional staff	417,562	1,174	111,731	-	(304,657)
Board of education	192,561	8,289	-	-	(184,272)
Administration.	1,698,703	-	63,711	-	(1,634,992)
Fiscal.	939,421	30	4,548	-	(934,843)
Operations and maintenance	1,098,910	15,750	22,567	-	(1,060,593)
Pupil transportation.	1,455,129	-	104,691	-	(1,350,438)
Central	73,235	-	1,283	-	(71,952)
Operation of non-instructional services:					
Other non-instructional services	4,183	-	-	-	(4,183)
Food service operations	699,512	136,128	523,973	-	(39,411)
Extracurricular activities.	428,470	163,500	43,274	-	(221,696)
Facilities acquisition and construction	3,985,666	148	114	-	(3,985,404)
Debt service:					
Principal retirement	248,664	-	-	-	(248,664)
Interest and fiscal charges	1,258,726	-	-	-	(1,258,726)
Total governmental activities	\$ 25,135,486	\$ 911,867	\$ 3,869,436	\$ -	(20,354,183)

General receipts:

Property taxes levied for:	
General purposes	12,229,182
Debt service.	2,112,246
Capital outlay.	1,065,195
Special revenue.	235,740
Grants and entitlements not restricted to specific programs	
	10,245,643
Grants and entitlements restricted for:	
Ohio facilities commission construction commission	4,153,432
Investment earnings	498,597
Miscellaneous	106,915
Total general receipts	30,646,950
Change in net position	10,292,767
Net cash position at beginning of year	50,059,602
Net cash position at end of year.	\$ 60,352,369

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Equity in pooled cash, cash equivalents, and investments	\$ 14,566,819	\$ 8,349,539	\$ 23,003,722	\$ 7,938,669	\$ 5,259,510	\$ 59,118,259
Total assets	<u>\$ 14,566,819</u>	<u>\$ 8,349,539</u>	<u>\$ 23,003,722</u>	<u>\$ 7,938,669</u>	<u>\$ 5,259,510</u>	<u>\$ 59,118,259</u>
Fund balances:						
Nonspendable:						
Permanent fund	\$ -	\$ -	\$ -	-	\$ 286,180	\$ 286,180
Restricted:						
Debt service	-	-	-	-	2,838,811	2,838,811
Capital improvements	-	8,349,539	23,003,722	-	1,406,259	32,759,520
Classroom facilities maintenance	-	-	-	-	365,620	365,620
Food service operations	-	-	-	-	292,252	292,252
Public school preschool	-	-	-	-	2,444	2,444
Targeted academic assistance	-	-	-	-	2	2
Vocational education	-	-	-	-	43	43
Other purposes	-	-	-	-	47,005	47,005
Extracurricular	-	-	-	-	20,894	20,894
Committed:						
Capital improvements	-	-	-	7,938,669	-	7,938,669
Assigned:						
Student instruction	150,546	-	-	-	-	150,546
Student and staff support	486,283	-	-	-	-	486,283
Extracurricular activities	9,546	-	-	-	-	9,546
Facilities acquisition and construction	315,035	-	-	-	-	315,035
Textbooks and instructional materials	137	-	-	-	-	137
Other purposes	2,971	-	-	-	-	2,971
Unassigned	13,602,301	-	-	-	-	13,602,301
Total fund cash balances	<u>\$ 14,566,819</u>	<u>\$ 8,349,539</u>	<u>\$ 23,003,722</u>	<u>\$ 7,938,669</u>	<u>\$ 5,259,510</u>	<u>\$ 59,118,259</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND CASH BALANCES TO
NET POSITION - CASH BASIS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total governmental fund cash balances	\$ 59,118,259
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Amounts reported for governmental activities on the statement of net position are different because:

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.

1,234,110
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Net position-cash basis of governmental activities	\$ 60,352,369
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General	Building	Classroom Facilities	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash receipts:						
From local sources:						
Property taxes	\$ 12,229,182	\$ -	\$ -	\$ -	\$ 3,413,181	\$ 15,642,363
Tuition	572,124	-	-	-	-	572,124
Earnings on investments	189,062	77,340	188,477	13,669	33,311	501,859
Charges for services	-	-	-	-	136,128	136,128
Extracurricular	49,317	-	-	-	115,535	164,852
Classroom materials and fees	14,724	-	-	-	-	14,724
Rental income	15,750	-	-	-	-	15,750
Contributions and donations	15,289	-	-	-	7,709	22,998
Other local revenues	48,415	-	-	-	175	48,590
Intergovernmental - intermediate	4,086	-	-	-	-	4,086
Intergovernmental - state	11,140,937	-	4,153,432	-	424,333	15,718,702
Intergovernmental - federal	-	-	-	-	2,528,514	2,528,514
Total cash receipts	<u>24,278,886</u>	<u>77,340</u>	<u>4,341,909</u>	<u>13,669</u>	<u>6,658,886</u>	<u>35,370,690</u>
Cash disbursements:						
Current:						
Instruction:						
Regular	7,840,797	-	-	-	387,678	8,228,475
Special	1,819,013	-	-	-	609,907	2,428,920
Vocational	255,504	-	-	-	-	255,504
Other	90,328	-	-	-	479,485	569,813
Support services:						
Pupil	636,267	-	-	-	567,869	1,204,136
Instructional staff	316,987	-	-	-	101,969	418,956
Board of education	192,561	-	-	-	-	192,561
Administration	1,640,610	-	-	-	63,862	1,704,472
Fiscal	817,837	8,040	18,324	-	97,069	941,270
Operations and maintenance	1,082,341	-	-	-	20,316	1,102,657
Pupil transportation	1,164,308	-	-	-	298,397	1,462,705
Central	72,313	-	-	-	1,154	73,467
Operation of non-instructional services:						
Other operation of non-instructional	3,044	-	-	-	-	3,044
Food service operations	-	-	-	-	701,592	701,592
Extracurricular activities	273,020	-	-	-	155,450	428,470
Facilities acquisition and construction	1,251,969	226,026	1,823,794	-	683,877	3,985,666
Debt service:						
Principal retirement	30,000	-	218,664	-	-	248,664
Interest and fiscal charges	1,394	-	-	-	1,257,332	1,258,726
Bond issuance costs	-	-	-	-	-	-
Total cash disbursements	<u>17,488,293</u>	<u>234,066</u>	<u>2,060,782</u>	<u>-</u>	<u>5,425,957</u>	<u>25,209,098</u>
Excess of cash receipts over cash disbursements	<u>6,790,593</u>	<u>(156,726)</u>	<u>2,281,127</u>	<u>13,669</u>	<u>1,232,929</u>	<u>10,161,592</u>
Other financing sources (uses):						
Transfers in	-	-	-	7,925,000	25,677	7,950,677
Transfers (out)	(7,950,677)	-	-	-	-	(7,950,677)
Advances in	367,297	-	-	-	254,055	621,352
Advances (out)	(254,055)	-	-	-	(367,297)	(621,352)
Insurance proceeds	-	-	-	-	51,500	51,500
Total other financing sources (uses)	<u>(7,837,435)</u>	<u>-</u>	<u>-</u>	<u>7,925,000</u>	<u>(36,065)</u>	<u>51,500</u>
Net change in fund cash balances	(1,046,842)	(156,726)	2,281,127	7,938,669	1,196,864	10,213,092
Fund cash balances at beginning of year	<u>15,613,661</u>	<u>8,506,265</u>	<u>20,722,595</u>	<u>-</u>	<u>4,062,646</u>	<u>48,905,167</u>
Fund cash balances at end of year	<u>\$ 14,566,819</u>	<u>\$ 8,349,539</u>	<u>\$ 23,003,722</u>	<u>\$ 7,938,669</u>	<u>\$ 5,259,510</u>	<u>\$ 59,118,259</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES OF GOVERNMENTAL FUNDS - CASH BASIS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net change in fund balances - cash basis - total governmental funds	\$	10,213,092
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*Amounts reported for governmental activities in the
statement of activities are different because:*

An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities - cash basis. Governmental fund expenditures and the related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the governmental activities.

79,675

Change in net position of governmental activities	\$	<u><u>10,292,767</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 9,698,477	\$ 12,120,042	\$ 12,229,182	\$ 109,140
Tuition	463,912	577,201	572,124	(5,077)
Earnings on investments	127,097	164,534	189,062	24,528
Extracurricular	10,312	12,930	13,218	288
Classroom materials and fees	11,829	14,745	14,724	(21)
Rental income	12,786	15,905	15,750	(155)
Contributions and donations	5,683	7,069	7,000	(69)
Other local revenues	27,273	36,455	46,370	9,915
Intergovernmental - intermediate	3,317	4,126	4,086	(40)
Intergovernmental - state	9,036,285	11,242,360	11,140,938	(101,422)
Total receipts	<u>19,396,971</u>	<u>24,195,367</u>	<u>24,232,454</u>	<u>37,087</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	11,110,491	8,708,965	7,965,867	743,098
Special	2,273,649	1,995,249	1,838,873	156,376
Vocational	345,899	285,726	262,604	23,122
Other	144,215	140,118	90,328	49,790
Support services:				
Pupil	805,680	710,890	644,978	65,912
Instructional staff	624,930	426,594	343,766	82,828
Board of education	357,098	225,183	210,246	14,937
Administration	1,887,981	1,750,051	1,651,938	98,113
Fiscal	1,171,665	860,678	836,480	24,198
Operations and maintenance	1,956,795	1,371,701	1,274,699	97,002
Pupil transportation	1,969,459	1,383,534	1,321,076	62,458
Central	92,251	90,202	79,313	10,889
Operation of non-instructional services	5,801	3,600	3,044	556
Extracurricular activities	440,019	261,935	239,178	22,757
Facilities acquisition and construction	1,733,276	1,596,546	1,567,005	29,541
Debt service:				
Principal	30,000	30,000	30,000	-
Interest and fiscal charges	2,000	1,394	1,394	-
Total budgetary basis disbursements	<u>24,951,209</u>	<u>19,842,366</u>	<u>18,360,789</u>	<u>1,481,577</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements	<u>(5,554,238)</u>	<u>4,353,001</u>	<u>5,871,665</u>	<u>1,518,664</u>
Other financing sources (uses):				
Refund of prior year's receipts	1,168	1,168	1,168	-
Transfers (out)	(20,480)	(7,950,677)	(7,950,677)	-
Advances in	367,296	367,296	367,296	-
Advances (out)	(350,000)	(350,000)	(254,055)	95,945
Sale of capital assets	2,045	2,045	2,045	-
Total other financing sources (uses)	<u>29</u>	<u>(7,930,168)</u>	<u>(7,834,223)</u>	<u>95,945</u>
Net change in fund cash balance	(5,554,209)	(3,577,167)	(1,962,558)	1,614,609
Fund cash balance at beginning of year	14,958,711	14,958,711	14,958,711	-
Prior year encumbrances appropriated	601,209	601,209	601,209	-
Fund cash balance at end of year	<u>\$ 10,005,711</u>	<u>\$ 11,982,753</u>	<u>\$ 13,597,362</u>	<u>\$ 1,614,609</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO

STATEMENT OF PROPRIETARY NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2017

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent	\$ 1,234,110
Total assets.	<u>1,234,110</u>
Net position:	
Unrestricted.	<u>1,234,110</u>
Total net position.	<u>\$ 1,234,110</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF CHANGES IN PROPRIETARY
NET POSITION - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Fund
Operating cash receipts:	
Sales/charges for services	\$ 3,608,588
Total operating cash receipts	3,608,588
Operating cash disbursements:	
Fringe benefits	44,870
Claims	3,490,106
Total operating cash disbursements.	3,534,976
Operating income	73,612
Nonoperating cash receipts:	
Interest revenue	6,063
Total nonoperating cash receipts.	6,063
Change in net position	79,675
Net cash position at beginning of year.	1,154,435
Net cash position at end of year	\$ 1,234,110

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2017

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 100,000	\$ 59,975
Total assets.	\$ 100,000	\$ 59,975
Net position:		
Held in trust for scholarships	\$ 100,000	\$ -
Due to students	-	42,276
Due to others	-	17,699
Total net position.	\$ 100,000	\$ 59,975

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Private-Purpose Trust
	Scholarship
Net position at beginning of year.	\$ 100,000
Net position at end of year	\$ 100,000

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Harrison Hills City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by State statute and/or federal guidelines.

The District was established in 1971 through the consolidation of existing land areas and school districts. The District serves an area approximately 386 square miles. It is located primarily in Harrison County; however, small portions of the District are located in Carroll County, Belmont County and Jefferson County. It is staffed by 99 non-certified employees, 109 certified employees and 10 administrators who provide services to 1,647 students and other community members. The District currently operates 3 instructional buildings, 1 administrative building, and 1 transportation garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.B., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District is fiscal agent for the Harrison County Family and Children First Council (the "Council"). The District is responsible for receiving and disbursing funds at the direction of the Council. This entity is legally separate from the District. The District is fiscal agent and custodian for the Council, but is not accountable; therefore, the operations of the Council have been included as an agency fund in the District's basic financial statements. The funds invested on behalf of the Council have been included in the basic financial statements as "equity in pooled cash and cash equivalents".

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and educational service centers. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts and acts in the capacity of fiscal agent for OME-RESA.

Belmont Harrison Joint Vocational School

The Belmont Harrison Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the nine participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Belmont Harrison Joint Vocational School, Treasurer's Office, at 110 Fox/Shannon Place, St. Clairsville, Ohio 43950.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

INSURANCE PURCHASING POOL

Workers' Compensation Group Rating Program

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP). The GRP is sponsored by OASBO and administered by CompManagements, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrolment fee to the Plan to cover the costs of administering the program.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements. These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The following are the District's major governmental funds:

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

Building fund - The building fund is used to account for the receipts and expenditures related to all special bond funds in the District. Expenditures recorded here represent the costs of acquiring capital facilities.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Classroom facilities fund - The classroom facilities fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Facilities Construction Commission (OFCC) for the building and equipping of classroom facilities.

Capital projects fund - The capital projects fund is used to account for receipts and disbursements for the District's capital projects.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to disbursements for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to a disbursement for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to disbursements for principal and interest.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical and dental benefits to employees.

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal net position) and do not involve measurement of results of operations. The District's agency funds account for student activities and the Harrison County Family and Children First Council.

D. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position-cash basis and the statement of activities - cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of cash receipts and cash disbursements.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts 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. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2017 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed disbursements and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated disbursements from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2017.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of disbursements for the general fund and for all other funds, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2017; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Disbursements plus encumbrances may not legally exceed budgeted appropriations at the legal level of budgetary control.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2017, the District's investments consisted of STAR Ohio, Federal Home Loan Mortgage Corp, Federal Home Loan Bank, Federal National Mortgage Association, certificates of deposit, Federal Farm Credit Banks, Treasury Notes, commercial paper, and US government money markets. STAR Ohio (the State Treasury Asset Reserve of 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 (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its 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 an NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$189,062 and \$53,118 assigned from other funds.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

G. Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

I. Unpaid Vacation and Sick Leave

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

J. Long-Term Obligations

Long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2017.

L. Fund Balance

The District reports classifications of fund balance based on the purpose for which resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable - resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Restricted - resources that have purpose constraints placed upon them by laws, regulations, creditors, grantors, or other external parties are considered available only for the purpose for which they were received.

Committed - resources that are constrained for specific purposes that are internally imposed by the District at its highest level of decision making authority, the Board of Education. With an affirmative vote of its members, the Board of Education may create funds for which resources are committed to the established purpose of that fund.

Assigned - resources that are intended to be used for specific purposes as approved through the District's formal purchasing procedure by the Treasurer. Through the District's purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for intended purposes.

Unassigned - residual fund balance within the general fund that is in spendable form that is not restricted, committed, or assigned.

The District applies restricted resources first when a disbursement is incurred for purposes for which restricted and unrestricted fund balance is available. The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when disbursements are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

M. Net Position

Net cash position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted cash are available.

N. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had no restricted assets at June 30, 2017.

O. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund loans are reported as advances-in and advances-out. Advances are not reflected as assets and liabilities in the accompanying financial statements. Interfund transfers and advances are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements. Interfund activity between governmental funds is eliminated on the statement of net position - cash basis and the statement of activities - cash basis.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Stabilization Arrangement

The Board of Education has \$151,803 of unassigned fund balance in the general fund set aside to be used for budget stabilization. The Board has set aside these funds to cover emergency situations or when revenue shortages or budgetary imbalances arise. The budget stabilization arrangement may be removed by action of the Board of Education at any time.

Q. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the District has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the District.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the District.

B. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets and deferred outflows, liabilities and deferred inflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the District had \$373 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2017 was \$1,234,110.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all District deposits was \$637,377. This amount does not include the District's investments listed on the following pages. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$1,028,622 of the District's bank balance of \$1,326,315 was exposed to custodial risk as discussed below, while \$297,693 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC

D. Investments

As of June 30, 2017, the District had the following investments and maturities:

<u>Investment type:</u>	<u>Balance at Carrying Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Negotiable CDs	\$ 7,442,691	\$ -	\$ 3,730,000	\$ 995,000	\$ 739,000	\$ 1,978,691
Commercial paper	15,471,128	8,017,936	7,453,192	-	-	-
FFCB	2,524,046	-	-	1,140,046	-	1,384,000
FHLB	1,758,109	-	509,536	749,573	-	499,000
FHLMC	5,339,152	-	1,669,126	1,957,175	-	1,712,851
FNMA	7,875,495	-	1,652,393	2,371,858	2,001,244	1,850,000
US Government Money Market	715,996	715,996	-	-	-	-
STAR Ohio	17,513,867	17,513,867	-	-	-	-
Total	\$ 58,640,484	\$ 26,247,799	\$ 15,014,247	\$ 7,213,652	\$ 2,740,244	\$ 7,424,542

Interest Rate Risk: To the extent possible, the District will attempt to match its investment with anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to maturity. Unless matched to a specific obligation or debt of the District, the District will not invest directly in securities maturing more than two years from the date of settlement.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by the State statute.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2017

<u>Investment type</u>	<u>Carrying Value</u>	<u>% of Total</u>
Negotiable CDs	\$ 7,442,691	12.69
Commercial paper	15,471,128	26.38
FFCB	2,524,046	4.30
FHLB	1,758,109	3.00
FHLMC	5,339,152	9.10
FNMA	7,875,495	13.43
US Government		
Money Market	715,996	1.22
STAR Ohio	<u>17,513,867</u>	<u>29.88</u>
 Total	 <u>\$ 58,640,484</u>	 <u>100.00</u>

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 637,377
Investments	58,640,484
Cash with fiscal agent	1,234,110
Cash on hand	<u>373</u>
Total	<u>\$ 60,512,344</u>

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 60,352,369
Private-purpose trust	100,000
Agency funds	<u>59,975</u>
Total	<u>\$ 60,512,344</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers

Interfund transfers for the year ended June 30, 2017 consisted of the following, as reported on the fund financial statements:

<u>Transfers from the general fund to:</u>	<u>Amount</u>
Capital projects fund	\$ 7,925,000
Nonmajor governmental funds	<u>25,677</u>
 Total	 <u>\$ 7,950,677</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

B. Advances

Advances for the year ended June 30, 2017, consisted of the following, as reported on the fund financial statements:

<u>Advances from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 254,055
 <u>Advances from nonmajor governmental funds to:</u>	
General fund	<u>367,297</u>
 Total	 <u>\$ 621,352</u>

Advances between governmental funds are eliminated on the government-wide financial statements; therefore, no advances are reported in the statement of activities.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, 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 2017 represent the collection of calendar year 2016 taxes. Public utility real and personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, 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 District receives property taxes from Harrison, Carroll, Tuscarawas, Belmont and Jefferson Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 348,042,530	82.79	\$ 462,641,150	85.47
Public utility personal	<u>72,341,480</u>	<u>17.21</u>	<u>78,674,202</u>	<u>14.53</u>
Total	<u>\$ 420,384,010</u>	<u>100.00</u>	<u>\$ 541,315,352</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$36.20		\$42.73

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2017, the following activity occurred in governmental activities long-term obligations:

	<u>Outstanding</u> <u>06/30/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>06/30/17</u>	<u>Due in</u> <u>One Year</u>
Governmental activities:					
Energy conservation note	\$ 390,000	\$ -	\$ (30,000)	\$ 360,000	\$ 30,000
Bus garage capital lease	218,664	-	(218,664)	-	-
School facilities and construction improvement bonds	<u>28,280,000</u>	<u>-</u>	<u>-</u>	<u>28,280,000</u>	<u>345,000</u>
Total long-term obligations, governmental activities	<u>\$28,888,664</u>	<u>\$ -</u>	<u>\$ (248,664)</u>	<u>\$ 28,640,000</u>	<u>\$ 375,000</u>

Energy conservation note - On November 23, 2010, the District issued energy conservation notes in the amount of \$565,000 for various improvements to school buildings. The notes were issued as part of the Qualified School Construction Bonds Program under the American Recovery and Reinvestment Act. Under this program, all interest payments on these notes are reimbursed to the District by the federal government. These notes bear an interest rate of 5.43% and mature on December 31, 2025.

Principal and interest requirements to retire the energy conservation notes at June 30, 2017, are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 30,000	\$ 18,734	\$ 48,734
2019	35,000	16,969	51,969
2020	35,000	15,068	50,068
2021	40,000	13,032	53,032
2022	40,000	10,860	50,860
2023 - 2026	<u>180,000</u>	<u>20,363</u>	<u>200,363</u>
Total	<u>\$ 360,000</u>	<u>\$ 95,026</u>	<u>\$ 455,026</u>

Bus Garage Capital lease - On March 29, 2012, the District entered into a capital lease agreement with the Cadiz Community Improvement Corporation (CIC) for construction of a new bus garage. On June 25, 2012, the District made a payment of \$200,845 to the CIC. After the project is completed, the final cost of the project, less the \$200,845 previously paid, will be divided into 14 semi-annual installments at 0% interest, to be paid by the District to the CIC. At the completion of the lease payments, the District will have the option to purchase the bus garage from the CIC for \$1. The estimated project cost at June 30, 2012 is \$326,434. This amount, less the \$200,845 previously paid, left a liability to the District of \$125,589.

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

During fiscal year 2015, the bus garage lease contract was amended to bring the total cost of the project to \$455,847. This represents an additional liability of \$129,413 over the initial liability of \$326,434. The amendment also stated that the District shall make 28 quarterly payments each on March 15, June 15, September 15 and December 15.

This remaining balance of the lease was paid off during fiscal year 2017.

School facilities construction and improvement bonds - On March 10, 2016, the District issued school facilities construction and improvement bonds in the amount of \$28,280,000 to fund the construction of a few school buildings. The bond issue included serial and term bonds. The bond issue included a premium of \$1,068,360. These bonds bear an interest rate that ranges from 2.00% to 5.00% and will mature on November 1, 2054.

Principal and interest required to retire the school facilities construction and improvement bonds at June 30, 2017, are as follows:

June 30,	School Facilities Construction/Improvement			
	Serial Bonds	Term Bonds	Interest	Total
2018	\$ 345,000	\$ -	\$ 1,101,311	\$ 1,446,311
2019	360,000	-	1,087,513	1,447,513
2020	375,000	-	1,073,113	1,448,113
2021	390,000	-	1,058,113	1,448,113
2022	405,000	-	1,042,513	1,447,513
2023 - 2027	2,210,000	-	5,026,725	7,236,725
2028 - 2032	2,630,000	-	4,612,375	7,242,375
2033 - 2037	2,490,000	670,000	4,081,025	7,241,025
2038 - 2042	-	3,890,000	3,347,625	7,237,625
2043 - 2047	-	4,760,000	2,488,025	7,248,025
2048 - 2052	-	5,735,000	1,510,200	7,245,200
2053 - 2055	-	4,020,000	326,000	4,346,000
Total	\$ 9,205,000	\$ 19,075,000	\$ 26,754,538	\$ 55,034,538

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2017, are a voted debt margin of \$22,055,995 and an unvoted debt margin of \$541,315.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees, office staff, administrative staff, and certified employees have the following sick leave and severance policies:

<u>Employee Status</u>	<u>Maximum Allowable Sick Leave Balance (Days)</u>	<u>Paid at 1/4 of Unused Sick Leave Balance</u>	<u>Paid at 1/8 of Unused Sick Leave Balance</u>	<u>Total Allowable Maximum Severance (Days)</u>
Classified	335	First 144 Days	Any Balance Over 144 Days	60
Office Staff	335	First 142 Days	Any Balance Over 142 Days	60
Administrative	335	First 160 Days	Any Balance Over 160 Days	62
Certified	335	First 144 Days	Any Balance Over 144 Days	60

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through MetLife as part of the Jefferson Health Plan Consortium.

NOTE 9 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has contracted with Ohio School Plan via Harcum-Hyre Insurance Agency for property and inland marine coverage; fleet insurance; and professional liability coverage. Coverage is provided as follows:

<u>Description</u>	<u>Amount</u>
Building and Contents-replacement cost (\$1,000 deductible)	\$56,898,593
Boiler and Machinery (\$1,000 deductible)	2,000,000
Crime Insurance	50,000

Coverage provided by Indiana Insurance is as follows:

General Liability	
Per occurrence	1,000,000
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 9 - RISK MANAGEMENT - (Continued)

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

B. Workers' Compensation

For fiscal year 2017, the District participated in the OASBO 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 District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Employee Group Medical, Dental, Vision and Life Insurance

Medical/surgical, prescription, and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 49 school districts within the Jefferson Health Plan, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf. Dental was offered to employees by Guardian Life Insurance Company of America; vision is offered to employees by Superior Vision; and life insurance is offered to employees by Dearborn National Life. Vision and life insurances were not through a self-insurance internal service fund.

NOTE 10 - PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description - The District non-teaching 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. That 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; or 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; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. 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 three 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.

**HARRISON HILLS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 10 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the 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, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$355,505 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - District licensed teachers and other 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 stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan 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 will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5% of the 13% member rate goes to the DC Plan and the remaining 1.5% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

New members who choose the DC Plan or Combined Plan 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 Combined Plan 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 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan 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 fiscal year 2017, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$875,263 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS Ohio	Total
Proportion of the net pension liability prior measurement date	0.08628810%	0.05454823%	
Proportion of the net pension liability current measurement date	<u>0.08643750%</u>	<u>0.05404734%</u>	
Change in proportionate share	<u>0.00014940%</u>	<u>-0.00050089%</u>	
Proportionate share of the net pension liability	\$ 6,326,427	\$ 18,091,274	\$ 24,417,701

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 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 earning were calculated using the long-term assumed investment rate of return (7.50 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.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

Sensitivity of the 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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 8,375,796	\$ 6,326,427	\$ 4,611,021

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-living adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

STRS Ohio's 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:

**HARRISON HILLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate - 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. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 24,041,833	\$ 18,091,274	\$ 13,071,627

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide 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.

The District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$0, \$0, and \$57,079, respectively. 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balances on the cash basis, 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 Cash Receipts, Cash Disbursements and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than an assignment of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement:

	<u>General fund</u>
Cash basis	\$ (1,046,842)
Funds budgeted elsewhere **	(1,316)
Adjustment for encumbrances	(914,400)
Budget basis	<u>\$ (1,962,558)</u>

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund, public school support fund, adult education fund, rotary fund and unclaimed monies fund.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 13 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 14 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Disbursements exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2016	\$ -
Current year set-aside requirement	279,520
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	-
Excess qualified expenditures from prior years	-
Current year offsets	(1,108,646)
Waiver granted by ODE	-
Prior year offset from bond proceeds	-
Total	<u>\$ (829,126)</u>
Balance carried forward to fiscal year 2018	<u>\$ -</u>
Set-aside balance June 30, 2017	<u>\$ -</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - SET-ASIDES - (Continued)

During fiscal year 2016, the District issued \$28,280,000 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods.

NOTE 15 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year disbursements and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

	Year-End
General fund	\$ 925,092
Building fund	628,672
Classroom facilities fund	5,695,250
Nonmajor governmental funds	<u>511,310</u>
Total	<u>\$ 7,760,324</u>

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program - Food Donation	10.555	N/A		\$21,183
Cash Assistance:				
School Breakfast Program	10.553	045245-05PU-16		175,521
National School Lunch Program	10.555	045245-LLP4-16		<u>339,768</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster				536,472
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	84.010	045245-C1S1-13 045245-C1S1-16 045245-C1S1-17		114 74,287 <u>528,274</u>
Title I Grants to Local Educational Agencies				602,675
Special Education Cluster (IDEA)				
Special Education, Grants to States (IDEA, Part B)	84.027	045245-6BSF-16 045245-6BSF-17		56,655 <u>386,528</u>
Special Education, Grants to States (IDEA, Part B) Subtotal				443,183
Special Education, Preschool Grants	84.173	045245-16 045245-17		2,033 <u>21,039</u>
Special Education, Preschool Grants Subtotal				<u>23,072</u>
Total Special Education Cluster (IDEA)				466,255
Twenty-First Century Community Learning Centers	84.287	045245-16 045245-17		18,640 <u>138,580</u>
Total Twenty-First Century Community Learning Centers				157,220
Rural Education	84.358	045245-17		37,024
Improving Teacher Quality State Grants	84.367	045245-TRS1-16 045245-TRS1-17		12,395 <u>102,297</u>
Total Improving Teacher Quality State Grants				114,692
<i>Passed Through Ohio Department of Health:</i>				
Special Education - Grants for Infants and Families	84.181	045245-17	\$32,437	<u>32,437</u>
Total U.S. Department of Education			32,437	1,410,303
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Health and Addiction Services:</i>				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	99-60203-SPOP-P-14-1457 99-60203-SSHS-P-15-1457 99-60203-SSHS-P-16-1457 1700156		7 14,207 64,345 <u>474,393</u>
Total Substance Abuse and Mental Health Services_Projects of Regional and National Significance				552,952
Promoting Safe and Stable Families	93.556	5AU-16-C0034 5AU-17-C0034	624 14,484	624 <u>14,484</u>
Total Promoting Safe and Stable Families			<u>15,108</u>	15,108
Stephanie Tubbs Child Welfare Services Program	93.645	5AU-17-C0034	1,790	1,790
System of Care Expansion Implementation Grant	93.243		2,500	2,500
<i>Passed Through Ohio Department of Health:</i>				
Affordable Care Act, Maternal, Infant & Early Childhood Home Visiting Program	93.505	045245-16 045245-17	104,017 292,952	104,017 <u>292,952</u>
Total Affordable Care Act, Maternal, Infant & Early Childhood Home Visiting Program			<u>396,969</u>	396,969
Total U.S. Department of Health and Human Services			416,367	969,319
Total Expenditures of Federal Awards			<u>\$448,804</u>	<u>\$2,916,094</u>

The accompanying notes are an integral part of this Schedule.

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR PART 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Harrison Hills City School District (the District) under programs of the federal government for the year ended June 30, 2017. 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 District, it is not intended to and does not present the financial position or changes in net position of the 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - SUBRECIPIENTS

The District passes certain federal awards received from U.S. Department of Education and U.S. Department of Health and Human Services to other governments or not-for-profit agencies (subrecipients). As Note B describes, the District reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

NOTE D - CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

Harrison Hills City School District
Harrison County
730 Peppard Avenue
Cadiz, Ohio 43907

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 cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison Hills City School District, Harrison County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2018, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2017-001.

District's Response to Finding

The District's response to the Finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

January 10, 2018



Dave Yost • Auditor of State

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

Harrison Hills City School District
Harrison County
730 Peppard Avenue
Cadiz, Ohio 43907

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited the Harrison Hills City School District's, Harrison County, Ohio (the 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 Harrison Hills City School District's major federal programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the District's major federal programs.

Management's Responsibility

The 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 District's compliance for each of the 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 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 District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on each Major Federal Program

In our opinion, the Harrison Hills City 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, 2017.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with 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 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.



Dave Yost
Auditor of State
Columbus, Ohio

January 10, 2018

**HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2017**

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)?	Yes
<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): <ul style="list-style-type: none"> • Child Nutrition Cluster, CFDA #10.553 and #10.555 • Title I Grants to Local Educational Agencies, CFDA #84.010 • Special Education Cluster, CFDA #84.027 and #84.173 	
<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. FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2017-001

Noncompliance

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

HARRISON HILLS CITY SCHOOL DISTRICT
HARRISON COUNTY

SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2017
(Continued)

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

**FINDING NUMBER 2017-001
(Continued)**

Noncompliance – Ohio Rev. Code § 117.38 (Continued)

The District filed financial statements with the Auditor of State, but those statements followed a cash and investments accounting basis rather than generally accepted accounting principles. The accompanying financial statements and notes omit material assets, liabilities, fund equities, and disclosures. The District is subject to fines and various other administrative remedies.

The District should prepare and file an annual financial report which is prepared using accounting principles generally accepted in the United States of America.

Official's Response: See Corrective Action Plan on page 68.

3. FINDINGS FOR FEDERAL AWARDS

None.



HARRISON HILLS CITY SCHOOL
DISTRICT

730 Peppard Ave.
Cadiz, OH 43907



SUMMARY SCHEDULE OF PRIOR AUDIT FINDING
2 CFR PART 200.511(b)
JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B), failure to file GAAP statements.	Not Corrected	The District will continue to file OCBOA statements.



HARRISON HILLS CITY SCHOOL
DISTRICT
730 Peppard Ave.
Cadiz. OH 43907



CORRECTIVE ACTION PLAN
2 CFR PART 200.511(c)
JUNE 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	The Board of Education voted on March 31, 2011 that the District would no longer prepare a GAAP statement. Instead, the District has entered into contract with Julian and Grube, Inc., to prepare cash basis GASB 34 look-alike statements. This was done to reduce costs related to the preparation of GAAP statements as well as audit costs.	June 30, 2018	Roxane Harding, Treasurer



Dave Yost • Auditor of State

HARRISON HILLS CITY SCHOOL DISTRICT

HARRISON 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
FEBRUARY 1, 2018**