



Dave Yost • Auditor of State

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY
JUNE 30, 2016**

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HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY
JUNE 30, 2016

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 16, 2017

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Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The discussion and analysis of Highland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2016 were as follows:

- Net position increased \$799,191, or less than 3 percent.
- General revenues were \$15,583,879, or 85 percent of total revenues, and reflect the School District's dependence on property taxes, income taxes, and unrestricted state entitlements.
- The contract agreement with the Highland Education Association (the teacher's union) was negotiated for a three-year term that will expire in June 2019. The contract with the non-teaching staff was negotiated for a three-year period which will expire in June 2018.

Using the Basic Financial Statements

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

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

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

Reporting the School District as a Whole

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2016. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

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

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

Reporting the School District's Most Significant Funds

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2016 and fiscal year 2015:

Table 1 Net Position			
	2016	2015	Change
<u>Assets:</u>			
Current and Other Assets	\$16,509,334	\$15,895,241	\$614,093
Capital Assets, Net	57,682,968	57,045,055	637,913
Total Assets	74,192,302	72,940,296	1,252,006
			(continued)

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 1 Net Position (continued)			
	2016	2015	Change
<u>Deferred Outflows of Resources</u>			
Pension	\$2,256,065	\$1,474,146	\$781,919
Other Amounts	1,780,227	0	1,780,227
Total Deferred Outflows of Resources	4,036,292	1,474,146	2,562,146
<u>Liabilities:</u>			
Current and Other Liabilities	2,860,157	2,260,201	(599,956)
Long-Term Liabilities			
Pension	23,022,906	20,565,420	(2,457,486)
Other Amounts	17,410,907	15,961,078	(1,449,829)
Total Liabilities	43,293,970	38,786,699	(4,507,271)
<u>Deferred Inflows of Resources</u>			
Pension	1,757,913	3,717,857	1,959,944
Other Amounts	3,951,701	3,484,067	(467,634)
Total Deferred Inflows of Resources	5,709,614	7,201,924	1,492,310
<u>Net Position:</u>			
Net Investment in Capital Assets	42,511,639	42,946,877	(435,238)
Restricted	2,292,164	1,401,602	890,562
Unrestricted (Deficit)	(15,578,793)	(15,922,660)	343,867
Total Net Position	\$29,225,010	\$28,425,819	\$799,191

The net pension liability is the largest liability reported by the School District at June 30, 2016, and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

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

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

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

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

As noted previously, the change in net position from the prior fiscal year was not significant, less than 3 percent. With the exception of pension related activity, the above table demonstrates few changes of note from the prior fiscal year. While not a significant increase in current and other assets, the \$614,093 increase is primarily related to an increase in cash resources on hand at fiscal year end and an increase in property taxes receivable (slight increase in the assessed valuation of property upon which taxes are levied). The increase in current and other liabilities is largely related to contracts and retainage amounts owed on track renovations and turf replacement. The increase in other long-term liabilities is associated with the refunding debt issued during fiscal year 2016 and the related premium on that debt.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 2 reflects the changes in net position for fiscal year 2016 and fiscal year 2015.

Table 2
Changes in Net Position

	Governmental Activities		
	2016	2015	Change
Revenues:			
Program Revenues			
Charges for Services	\$564,855	\$536,647	\$28,208
Operating Grants and Contributions	2,105,000	2,074,348	30,652
Total Program Revenues	2,669,855	2,610,995	58,860
General Revenues			
Property Taxes Levied for General Purposes	3,726,666	4,009,029	(282,363)
Property Taxes Levied for Classroom Facilities Purposes	69,459	73,925	(4,466)
Property Taxes Levied for Debt Service Purposes	862,565	928,144	(65,579)
Property Taxes Levied for Permanent Improvement Purposes	117,687	126,564	(8,877)
Income Taxes Levied for General Purposes	1,085,597	1,056,109	29,488
Grants and Entitlements	9,491,180	9,726,565	(235,385)
Interest	33,591	29,860	3,731
Gifts and Donations	1,370	1,439	(69)
Miscellaneous	195,764	654,446	(458,682)
Total General Revenues	15,583,879	16,606,081	(1,022,202)
Total Revenues	18,253,734	19,217,076	(963,342)
Expenses:			
Instruction:			
Regular	7,617,159	7,685,490	68,331
Special	2,175,043	2,454,407	279,364
Vocational	301,817	304,471	2,654
Support Services:			
Pupils	783,933	983,989	200,056
Instructional Staff	248,219	181,846	(66,373)
Board of Education	328,535	262,238	(66,297)
Administration	1,189,836	1,135,807	(54,029)
Fiscal	405,789	413,295	7,506
Operation and Maintenance of Plant	1,350,089	1,707,808	357,719
Pupil Transportation	1,364,855	1,383,702	18,847
Central	293	23	(270)
Non-Instructional Services	807,738	785,663	(22,075)
Extracurricular Activities	456,902	447,322	(9,580)
Interest and Fiscal Charges	424,335	838,313	413,978
Total Expenses	17,454,543	18,584,374	1,129,831
Increase in Net Position before Special Item	799,191	632,702	166,489
Special Item	0	(519,646)	519,646
Increase in Net Position	799,191	113,056	686,135
Net Position at Beginning of Year	28,425,819	28,312,763	113,056
Net Position at End of Year	\$29,225,010	\$28,425,819	\$799,191

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

In total, there was a 5 percent decrease in revenues. There was little change in program revenues; however, a sizable decrease in general revenues. The decrease in property tax revenue is largely due to there being less tax revenue collected by the County Auditor that was available to be advanced to the School District at fiscal year end. This amount fluctuates due the timing of when taxpayers pay their property taxes as taxpayers have the option of paying their taxes in full early in the year or to pay half early in the year with a second payment made mid-year. The decrease in unrestricted grants and entitlement is primarily a reduction in resources from State foundation funding.

Expenses decreased 6 percent from the prior fiscal year with the largest reductions in the special instruction and pupils programs. The School District began providing the preschool program (special instruction) in-house during fiscal year 2016 rather than contracting the program to the Educational Service Center which reduced the cost of the program. Pupils costs were larger in the prior fiscal year due to acquiring Chromebooks for all classrooms in the prior year. The refunding of general obligation bonds affected the amount of interest expense paid during fiscal year 2016 (reduced due to reduction in principal paid as a result of the refunding).

Program expenses for instruction represent 58 percent of total expenses. When combined with the support services related to instruction, such as pupils, instructional staff, operation and maintenance, and pupil transportation, 79 percent of all School District expenses are related to the primary function of delivering education and maintaining facilities.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction:				
Regular	\$7,617,159	\$7,685,490	\$7,493,748	\$7,517,531
Special	2,175,043	2,454,407	717,887	1,003,023
Vocational	301,817	304,471	148,731	156,591
Support Services:				
Pupils	783,933	983,989	783,933	983,989
Instructional Staff	248,219	181,846	248,219	181,846
Board of Education	328,535	262,238	328,535	262,238
Administration	1,189,836	1,135,807	1,189,836	1,135,807
Fiscal	405,789	413,295	381,052	413,295
Operation and Maintenance of Plant	1,350,089	1,707,808	1,350,089	1,707,808
Pupil Transportation	1,364,855	1,383,702	1,364,855	1,383,702
Central	293	23	293	23
Non-Instructional Services	807,738	785,663	38,651	105,100
Extracurricular Activities	456,902	447,322	314,524	284,113
Interest and Fiscal Charges	424,335	838,313	424,335	838,313
Total Expenses	<u>\$17,454,543</u>	<u>\$18,584,374</u>	<u>\$14,784,688</u>	<u>\$15,973,379</u>

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Program revenues provided for 15 percent of the costs of services during fiscal year 2016 (14 percent in the prior fiscal year). Traditional support from federal title grants provided for much of the program revenues for the School District. General revenues such as local property taxes, income taxes, and unrestricted State entitlements (primarily State Foundation funding) provided for the remaining 85 percent of all program costs during the fiscal year.

The special instruction program received 67 percent of its funding through state and federal grants restricted for special education. The non-instructional services program which includes grants, food subsidies, and cafeteria sales received 95 percent of its funding through program revenues in fiscal year 2016. Revenues from extracurricular activities, including athletic events, provided for 31 percent of the costs of these activities.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund represents the main operating fund for the day-in day-out operations of the School District. During fiscal year 2016, fund balance in the General Fund increased \$93,640 (less than 2 percent). Revenues and expenditures both decreased slightly from the prior fiscal year.

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

Fund balance decreased substantially in the Permanent Improvement capital projects fund as resources were used for various improvements.

General Fund Budgeting Highlights

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2016, the School District had \$57,682,968 invested in capital assets (net of accumulated depreciation). Additions for fiscal year 2016 included the purchase of land, completion of a maintenance building, renovations to the track, turf replacement, various equipment acquisitions, and buses. There were no disposals. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Debt

At fiscal year end, the School District had general obligation bonds outstanding, in the amount of \$16,497,244, for school construction. During fiscal year 2016, the School District advance refunded \$12,665,000 in general obligation bonds. The refunding resulted in the recognition of an accounting loss of \$1,799,445; however, reduced the aggregate debt service payments by \$4,331,721 and provided an economic gain of \$3,215,394. The School District's long-term obligations also include the net pension liability and compensated absences. For further information regarding the School District's long-term obligations, refer to Note 16 to the basic financial statements.

Current Issues

Highland Local School District is located in southern Morrow County and includes a small portion of northeastern Delaware County (Porter Township). The School District is primarily rural farming and the tax base is primarily residential. Interstate 71 is within easy access to the School District residents and is an easy commute for many traveling to Columbus. The School District's currently serves approximately 1,873 students.

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

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

Contacting the School District's Financial Management

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

Highland Local School District
Statement of Net Position
June 30, 2016

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$10,060,177
Accounts Receivable	36,495
Accrued Interest Receivable	1,677
Intergovernmental Receivable	370,385
Income Taxes Receivable	442,050
Prepaid Items	8,343
Inventory Held for Resale	17,343
Materials and Supplies Inventory	51,669
Property Taxes Receivable	5,521,195
Nondepreciable Capital Assets	2,150,913
Depreciable Capital Assets, Net	55,532,055
Total Assets	74,192,302
<u>Deferred Outflows of Resources:</u>	
Deferred Charge on Refunding	1,780,227
Pension	2,256,065
Total Deferred Outflows of Resources	4,036,292
<u>Liabilities:</u>	
Accounts Payable	57,988
Contracts Payable	760,539
Accrued Wages and Benefits Payable	1,646,805
Matured Compensated Absences Payable	7,577
Intergovernmental Payable	242,768
Retainage Payable	105,439
Accrued Interest Payable	39,041
Long-Term Liabilities:	
Due Within One Year	529,518
Due in More Than One Year	
Net Pension Liability	23,022,906
Other Amounts Due in More than One Year	16,881,389
Total Liabilities	43,293,970
<u>Deferred Inflows of Resources:</u>	
Property Taxes	3,951,701
Pension	1,757,913
Total Deferred-Inflows of Resources	5,709,614
<u>Net Position:</u>	
Net Investment in Capital Assets	42,511,639
Restricted For:	
Debt Service	883,302
Capital Projects	95,621
Cafeteria Operations	313,905
Classroom Facilities	794,161
Other Purposes	205,175
Unrestricted (Deficit)	(15,578,793)
Total Net Position	\$29,225,010

See Accompanying Notes to Basic Financial Statements

Highland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<u>Governmental Activities:</u>			
Instruction:			
Regular	\$7,617,159	\$44,571	\$78,840
Special	2,175,043	26,345	1,430,811
Vocational	301,817	0	153,086
Support Services:			
Pupils	783,933	0	0
Instructional Staff	248,219	0	0
Board of Education	328,535	0	0
Administration	1,189,836	0	0
Fiscal	405,789	24,737	0
Operation and Maintenance of Plant	1,350,089	0	0
Pupil Transportation	1,364,855	0	0
Central	293	0	0
Non-Instructional Services	807,738	326,824	442,263
Extracurricular Activities	456,902	142,378	0
Interest and Fiscal Charges	424,335	0	0
Total Governmental Activities	<u>\$17,454,543</u>	<u>\$564,855</u>	<u>\$2,105,000</u>

General Revenues:

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

Change in Net Position

Net Position at Beginning of Year
Net Position at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position

Governmental
Activities

	(\$7,493,748)
	(717,887)
	(148,731)
	(783,933)
	(248,219)
	(328,535)
	(1,189,836)
	(381,052)
	(1,350,089)
	(1,364,855)
	(293)
	(38,651)
	(314,524)
	(424,335)
	<u>(14,784,688)</u>

	3,726,666
	69,459
	862,565
	117,687
	1,085,597
	9,491,180
	33,591
	1,370
	195,764
	<u>15,583,879</u>

	799,191
	28,425,819
	<u><u>\$29,225,010</u></u>

Highland Local School District
Balance Sheet
Governmental Funds
June 30, 2016

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental</u>
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,988,696	\$691,281	\$2,053,399	\$1,324,631
Accounts Receivable	36,495	0	0	0
Accrued Interest Receivable	1,677	0	0	0
Intergovernmental Receivable	125,248	0	0	245,137
Income Taxes Receivable	442,050	0	0	0
Prepaid Items	8,343	0	0	0
Inventory Held for Resale	0	0	0	17,343
Materials and Supplies Inventory	48,910	0	0	2,759
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	2,170	0	0	0
Property Taxes Receivable	4,321,791	985,172	136,768	77,464
Total Assets	<u>\$10,975,380</u>	<u>\$1,676,453</u>	<u>\$2,190,167</u>	<u>\$1,667,334</u>
<u>Liabilities:</u>				
Accounts Payable	\$43,373	\$0	\$0	\$14,615
Contracts Payable	0	0	760,539	0
Accrued Wages and Benefits Payable	1,496,031	0	0	150,774
Matured Compensated Absences Payable	7,577	0	0	0
Intergovernmental Payable	237,590	0	0	5,178
Retainage Payable	0	0	105,439	0
Total Liabilities	<u>1,784,571</u>	<u>0</u>	<u>865,978</u>	<u>170,567</u>
<u>Deferred Inflows of Resources:</u>				
Property Taxes	3,096,901	701,966	98,087	54,747
Unavailable Revenue	423,873	57,533	7,908	150,664
Total Deferred Inflows of Resources	<u>3,520,774</u>	<u>759,499</u>	<u>105,995</u>	<u>205,411</u>
<u>Fund Balances:</u>				
Nonspendable	57,253	0	0	2,759
Restricted	2,170	916,954	0	1,322,794
Committed	0	0	1,218,194	0
Assigned	317,314	0	0	0
Unassigned (Deficit)	5,293,298	0	0	(34,197)
Total Fund Balances	<u>5,670,035</u>	<u>916,954</u>	<u>1,218,194</u>	<u>1,291,356</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$10,975,380</u>	<u>\$1,676,453</u>	<u>\$2,190,167</u>	<u>\$1,667,334</u>

See Accompanying Notes to the Basic Financial Statements

Total
Governmental
Funds

\$10,058,007
36,495
1,677
370,385
442,050
8,343
17,343
51,669

2,170
5,521,195

\$16,509,334

\$57,988
760,539
1,646,805
7,577
242,768
105,439

2,821,116

3,951,701
639,978

4,591,679

60,012
2,241,918
1,218,194
317,314
5,259,101

9,096,539

\$16,509,334

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Highland Local School District
Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2016

Total Governmental Fund Balances		\$9,096,539
<p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		57,682,968
<p>Deferred outflows of resources includes deferred charges on refundings which do not provide current financial resources and, therefore, are not reported in the funds.</p>		1,780,227
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		
Accounts Receivable	35,739	
Intergovernmental Receivable	221,536	
Income Taxes Receivable	62,203	
Delinquent Property Taxes Receivable	320,500	
		639,978
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Accrued Interest Payable	(39,041)	
General Obligation Bonds Payable	(16,497,244)	
Compensated Absences Payable	(913,663)	
		(17,449,948)
<p>The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.</p>		
Deferred Outflows - Pension	2,256,065	
Deferred Inflows - Pension	(1,757,913)	
Net Pension Liability	(23,022,906)	
		(22,524,754)
Net Position of Governmental Activities		\$29,225,010

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Bond Retirement	Permanent Improvement	Other Governmental
<u>Revenues:</u>				
Property Taxes	\$3,783,295	\$876,133	\$119,474	\$70,566
Income Taxes	1,084,872	0	0	0
Intergovernmental	10,155,158	128,891	17,576	1,125,556
Interest	33,237	0	0	354
Tuition and Fees	62,460	0	0	0
Extracurricular Activities	22,999	0	0	142,378
Charges for Services	24,737	0	0	326,824
Gifts and Donations	1,370	0	0	0
Miscellaneous	195,965	0	0	0
Total Revenues	<u>15,364,093</u>	<u>1,005,024</u>	<u>137,050</u>	<u>1,665,678</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	7,079,209	0	0	37,359
Special	1,539,297	0	0	622,420
Vocational	265,723	0	0	0
Support Services:				
Pupils	799,891	0	0	0
Instructional Staff	193,815	0	0	3,302
Board of Education	328,535	0	0	0
Administration	1,166,264	0	0	0
Fiscal	380,622	27,597	3,763	2,196
Operation and Maintenance of Plant	1,551,791	0	1,258,772	61,564
Pupil Transportation	1,230,703	0	0	0
Central	0	0	0	293
Non-Instructional Services	0	0	0	708,293
Extracurricular Activities	229,743	0	0	139,663
Capital Outlay	204,860	0	0	22,100
Debt Service:				
Principal Retirement	0	380,000	82,869	0
Interest and Fiscal Charges	0	599,729	1,878	0
Total Expenditures	<u>14,970,453</u>	<u>1,007,326</u>	<u>1,347,282</u>	<u>1,597,190</u>
Excess of Revenues Over (Under) Expenditures	<u>393,640</u>	<u>(2,302)</u>	<u>(1,210,232)</u>	<u>68,488</u>
<u>Other Financing Sources (Uses):</u>				
General Obligation Bonds Issued	0	12,665,000	0	0
Premium on Bonds Issued	0	1,992,482	0	0
Payment to Refunded Bond Escrow Agent	0	(14,464,445)	0	0
Transfers In	0	0	300,000	0
Transfers Out	(300,000)	0	0	0
Total Other Financing Sources (Uses)	<u>(300,000)</u>	<u>193,037</u>	<u>300,000</u>	<u>0</u>
Changes in Fund Balances	93,640	190,735	(910,232)	68,488
Fund Balances at Beginning of Year	<u>5,576,395</u>	<u>726,219</u>	<u>2,128,426</u>	<u>1,222,868</u>
Fund Balances at End of Year	<u>\$5,670,035</u>	<u>\$916,954</u>	<u>\$1,218,194</u>	<u>\$1,291,356</u>

See Accompanying Notes to the Basic Financial Statements

Total
Governmental
Funds

\$4,849,468
1,084,872
11,427,181
33,591
62,460
165,377
351,561
1,370
195,965
18,171,845

7,116,568
2,161,717
265,723

799,891
197,117
328,535
1,166,264
414,178
2,872,127
1,230,703
293
708,293
369,406
226,960

462,869
601,607
18,922,251

(750,406)

12,665,000
1,992,482
(14,464,445)
300,000
(300,000)
193,037

(557,369)

9,653,908
\$9,096,539

Highland Local School District
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2016

Changes in Fund Balances - Total Governmental Funds (\$557,369)

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

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

Capital Outlay - Nondepreciable Capital Assets	1,554,916	
Capital Outlay - Depreciable Capital Assets	254,868	
Depreciation	<u>(1,171,871)</u>	637,913

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

Delinquent Property Taxes	(73,091)	
Income Taxes	725	
Intergovernmental	146,000	
Tuition and Fees	8,456	
Miscellaneous	<u>(201)</u>	81,889

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

General Obligation Bonds	380,000	
Capital Leases	82,869	
Payment to Refunded Bond Escrow Agent	<u>14,464,445</u>	14,927,314

Bond proceeds are other financing sources in the governmental funds but the issuance increase long-term liabilities on the statement of net position. (12,665,000)

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

Accrued Interest Payable	21,983	
Annual Accretion on Capital Appreciation Bonds	(148,448)	
Unamortized Premium	(1,992,482)	
Amortization of Premium	521,910	
Amortization of Discount	(198,955)	
Amortization of Deferred Charge on Refunding	<u>(19,218)</u>	(1,815,210)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (94,723)

Except for amounts reported as dererred outflow/inflows, changes in the net pension liability are reported as pension expense on the statement of activities. (1,042,473)

Contractually required contributions are reported as expenditures in governmental funds, however, the statement of net position reports these as deferred outflows or a reuction of the liability. 1,326,850

Change in Net Position of Governmental Activities \$799,191

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Over (Under)
<u>Revenues:</u>				
Property Taxes	\$3,931,000	\$3,931,000	\$3,999,894	\$68,894
Income Taxes	1,025,000	1,025,000	1,075,242	50,242
Intergovernmental	10,250,000	10,000,000	10,155,158	155,158
Interest	20,000	20,000	32,053	12,053
Tuition and Fees	82,000	82,000	62,456	(19,544)
Extracurricular Activities	18,000	18,000	22,999	4,999
Gifts and Donations	1,500	1,500	1,370	(130)
Miscellaneous	64,000	60,000	52,007	(7,993)
Total Revenues	<u>15,391,500</u>	<u>15,137,500</u>	<u>15,401,179</u>	<u>263,679</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	7,411,613	7,401,613	7,221,892	179,721
Special	1,671,600	1,671,600	1,524,627	146,973
Vocational	297,641	297,641	265,927	31,714
Support Services:				
Pupils	958,020	958,020	872,220	85,800
Instructional Staff	199,080	199,080	194,131	4,949
Board of Education	272,600	272,600	330,008	(57,408)
Administration	1,170,335	1,166,735	1,177,905	(11,170)
Fiscal	366,000	366,000	387,888	(21,888)
Operation and Maintenance of Plant	1,531,900	1,531,900	1,603,799	(71,899)
Pupil Transportation	1,439,600	1,439,600	1,410,846	28,754
Extracurricular Activities	216,700	216,700	233,685	(16,985)
Capital Outlay	292,396	206,628	204,860	1,768
Total Expenditures	<u>15,827,485</u>	<u>15,728,117</u>	<u>15,427,788</u>	<u>300,329</u>
Excess of Revenues Under Expenditures	<u>(435,985)</u>	<u>(590,617)</u>	<u>(26,609)</u>	<u>564,008</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	15,000	15,000	13,700	(1,300)
Refund of Prior Year Expenditures	405,900	330,900	296,208	(34,692)
Transfers Out	0	(300,000)	(300,000)	0
Total Other Financing Sources (Uses)	<u>420,900</u>	<u>45,900</u>	<u>9,908</u>	<u>(35,992)</u>
Changes in Fund Balance	(15,085)	(544,717)	(16,701)	528,016
Fund Balance at Beginning of Year	5,621,155	5,621,155	5,621,155	0
Prior Year Encumbrances Appropriated	171,567	171,567	171,567	0
Fund Balance at End of Year	<u>\$5,777,637</u>	<u>\$5,248,005</u>	<u>\$5,776,021</u>	<u>\$528,016</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$29,742	\$40,053
<u>Liabilities:</u>		
Undistributed Assets	0	\$2,669
Due to Students	0	37,384
Total Liabilities	0	\$40,053
<u>Net Position:</u>		
Held in Trust for Scholarships	\$29,742	

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Change in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2016

<u>Additions:</u>	
Gifts and Donations	\$9,380
 <u>Deductions:</u>	
Non-Instructional Services	<u>6,500</u>
Change in Net Position	2,880
Net Position at Beginning of Year	<u>26,862</u>
Net Position at End of Year	<u><u>\$29,742</u></u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1960. The School District serves an area of approximately one hundred forty-four square miles and is located in Morrow and Delaware Counties. It is staffed by ninety-one classified employees, one hundred thirty certified teaching personnel, and eight administrative employees who provide services to 1,873 students and other community members. The School District currently operates an elementary school, a middle school, and a high school.

Reporting Entity

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

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

The School District participates in three jointly governed organizations, an insurance pool, and is associated with a related organization. These organizations are the Metropolitan Educational Technology Association, Tri-Rivers Joint Vocational School, Metropolitan Educational Council, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Selover Public Library. These organizations are presented in Notes 20, 21, and 22 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

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

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

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

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for a deferred charge on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and the reacquisition price. This amount is deferred and amortized over the life of the old debt or the life of the new debt, whichever is shorter. Deferred outflows of resources are also reported on the government-wide statement of net position for pension and explained in Note 13 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources consists of property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes intergovernmental revenue including grants, income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities on page 19. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 13 to the basic financial statements.

Expenses/Expenditures

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources requested by the School District prior to fiscal year end.

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

F. Cash and Investments

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

During fiscal year 2016, the School District invested in negotiable certificates of deposit, which are reported at fair value. Fair value is based on quoted market price.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2016 was \$33,237, which includes \$15,092 assigned from other School District funds.

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

J. Capital Assets

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

K. Deferred Charge on Refunding

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

L. Compensated Absences

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

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Unamortized Premiums and Discounts

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

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

O. Net Position

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

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

P. Fund Balance

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

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

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

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

Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated. The Board of Education has also assigned fund balance to cover a gap between estimated resources and appropriations in the fiscal year 2017 budget. Certain resources have also been assigned for other educational and extracurricular activities.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Q. Pensions

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

R. Interfund Transactions

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

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

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

S. Estimates

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 3 - Change in Accounting Principles

For fiscal year 2016, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application”, GASB Statement No. 76, “Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”, and GASB Statement No. 82, “Pension Issues-an Amendment of GASB Statements No. 67, No. 69, and No. 73”.

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 76 identifies, in the context of the current governmental financial reporting environment, the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this statement did not result in any changes to the School District’s financial statements.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2016, the Title VI-B and Title I special revenue funds had deficit fund balances, in the amount of \$733 and \$33,464, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

For the fiscal year ended June 30, 2016, the Permanent Improvement capital projects fund had expenditures plus encumbrances in excess of appropriations, in the amount of \$590,530. The Treasurer will monitor budgetary transactions to ensure that expenditures are within amounts appropriated.

Note 5 - Budgetary Basis of Accounting

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 5 - Budgetary Basis of Accounting (continued)

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

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

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

Changes in Fund Balance	
GAAP Basis	\$93,640
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2015, Received in Cash FY 2016	1,753,481
Accrued FY 2016, Not Yet Received in Cash	(1,406,487)
Expenditure Accruals:	
Accrued FY 2015, Paid in Cash FY 2016	(2,026,356)
Accrued FY 2016, Not Yet Paid in Cash	1,784,571
Prepaid Items	(371)
Materials and Supplies Inventory	(334)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(214,845)
Budget Basis	<u>(\$16,701)</u>

Note 6 - Deposits and Investments

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 6 - Deposits and Investments (continued)

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

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

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 6 - Deposits and Investments (continued)

Investments

As of June 30, 2016, the fair value of funds invested in negotiable certificates of deposit was \$520,219.

	<u>Fair Value</u>	<u>Maturity</u>
Negotiable Certificates of Deposit	\$272,172	8/29/16
Negotiable Certificates of Deposit	248,047	12/23/16

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2016. All of the School District's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

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

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

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

Note 7 - Receivables

Receivables at June 30, 2016, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except income taxes and property taxes, are expected to be collected within one year. Income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 7 - Receivables (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Fund	
General Fund	
School Employees Retirement System	\$75,536
Miscellaneous	49,712
Total General Fund	125,248
Other Governmental Funds	
Food Service	30,165
Title VI-B	90,000
Title I	114,000
Early Childhood Special Education, IDEA	2,972
Title II-A	8,000
Total Other Governmental Funds	245,137
Total Intergovernmental Receivables	\$370,385

Note 8 - Income Taxes

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

Note 9 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 9 - Property Taxes (continued)

Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Morrow and Delaware Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of June 30, 2016, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance at June 30, 2016, was \$974,495 in the General Fund, \$18,053 in the Classroom Facilities special revenue fund, \$225,673 in the Bond Retirement debt service fund, and \$30,773 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2015, was \$1,191,094 in the General Fund, \$21,332 in the Classroom Facilities special revenue fund, \$275,832 in the Bond Retirement debt service fund, and \$37,612 in the Permanent Improvement capital projects fund.

The assessed values upon which fiscal year 2016 taxes were collected are:

	2015 Second- Half Collections		2016 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$207,281,870	90.88%	\$208,727,780	90.33%
Industrial/Commercial	15,240,900	6.68	16,011,270	6.93
Public Utility	5,577,020	2.44	6,338,710	2.74
Total Assessed Value	<u>\$228,099,790</u>	<u>100.00%</u>	<u>\$231,077,760</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$24.50		\$24.50	

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance at 6/30/15	Additions	Reductions	Balance at 6/30/16
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$722,747	\$53,826	\$0	\$776,573
Construction in Progress	125,716	1,501,090	(252,466)	1,374,340
Total Nondepreciable Capital Assets	848,463	1,554,916	(252,466)	2,150,913
Depreciable Capital Assets				
Land Improvements	1,154,538	7,887	0	1,162,425
Buildings and Building Improvements	60,066,916	252,466	0	60,319,382
Furniture, Fixtures, and Equipment	1,245,650	79,809	0	1,325,459
Vehicles	2,005,921	167,172	0	2,173,093
Total Depreciable Capital Assets	64,473,025	507,334	0	64,980,359
Less Accumulated Depreciation				
Land Improvements	(192,260)	(31,454)	0	(223,714)
Buildings and Building Improvements	(6,282,457)	(919,270)	0	(7,201,727)
Furniture, Fixtures, and Equipment	(529,905)	(71,808)	0	(601,713)
Vehicles	(1,271,811)	(149,339)	0	(1,421,150)
Total Accumulated Depreciation	(8,276,433)	(1,171,871)	0	(9,448,304)
Depreciable Capital Assets, Net	56,196,592	(664,537)	0	55,532,055
Governmental Activities Capital Assets, Net	\$57,045,055	\$890,379	(\$252,466)	\$57,682,968

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$605,777
Special	32,451
Vocational	29,671
Support Services:	
Pupils	8,498
Instructional Staff	53,923
Administration	22,714
Fiscal	4,323
Operation and Maintenance of Plant	52,549
Pupil Transportation	166,794
Non-Instructional Services	99,562
Extracurricular Activities	95,609
Total Depreciation Expense	<u>\$1,171,871</u>

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District contracted for the following insurance coverage.

Coverage purchased from Argonaut Insurance Group is as follows:

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

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

For fiscal year 2016, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 12 - Contractual Commitments

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2017 are as follows:

General Fund	\$214,845
Permanent Improvement Fund	1,013,226
Total	<u><u>\$1,228,071</u></u>

Note 13 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 13 - Defined Benefit Pension Plans (continued)

Age and service requirements for retirement are as follows.

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$308,003 for fiscal year 2016. Of this amount, \$64,120 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 13 - Defined Benefit Pension Plans (continued)

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-five years of service credit, or thirty years of service credit regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age sixty with thirty-five years of service or age sixty-five with five years of service on August 1, 2026.

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

The CP offers features of both the DBP and the DCP. In the CP, 11 percent of the 12 percent member rate goes to the DCP and 1 percent goes to the DBP. Member contributions to the DCP are allocated among investment choices by the member and contributions to the DBP from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty.

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased 1 percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 13 - Defined Benefit Pension Plans (continued)

The School District's contractually required contribution to STRS was \$1,018,847 for fiscal year 2016. Of this amount, \$173,356 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.07557300%	0.06882538%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.07152490%</u>	<u>0.06853702%</u>	
Change in Proportionate Share	<u>0.0040481%</u>	<u>0.00028836%</u>	
Proportionate Share of the Net Pension Liability	\$4,081,279	\$18,941,627	\$23,022,906
Pension Expense	\$201,464	\$841,009	\$1,042,473

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences Between Expected and Actual Experience	\$65,716	\$863,499	\$929,215
School District Contributions Subsequent to the Measurement Date	<u>308,003</u>	<u>1,018,847</u>	<u>1,326,850</u>
Total Deferred Outflows of Resources	<u>\$373,719</u>	<u>\$1,882,346</u>	<u>\$2,256,065</u>
Deferred Inflows of Resources			
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$135,225	\$1,362,262	\$1,497,487
Changes in Proportionate Share and Difference Between School District Contributions and Proportionate Share of Contributions	<u>179,132</u>	<u>81,294</u>	<u>260,426</u>
Total Deferred Inflows of Resources	<u>\$314,357</u>	<u>\$1,443,556</u>	<u>\$1,757,913</u>

\$1,326,850 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 13 - Defined Benefit Pension Plans (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

Fiscal Year Ended June 30,	SERS	STRS	Total
2017	(\$106,339)	(\$327,742)	(\$434,081)
2018	(106,339)	(327,742)	(434,081)
2019	(106,650)	(327,742)	(434,392)
2020	70,687	403,169	473,856
Total	(\$248,641)	(\$580,057)	(\$828,698)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of June 30, 2015, are presented below.

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 13 - Defined Benefit Pension Plans (continued)

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's Proportionate Share of the Net Pension Liability	\$5,659,269	\$4,081,279	\$2,752,483

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 13 - Defined Benefit Pension Plans (continued)

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Inflation	2.75 percent
Projected Salary Increases	12.25 percent at age 20 to 2.75 percent at age 70
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 commences on fifth anniversary of retirement date

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study effective July 1, 2012.

STRS' investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the retirement board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows.

Asset Class	Target Allocation	Long-Term Expected Nominal 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
	<u>100.00%</u>	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.25 percent.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 13 - Defined Benefit Pension Plans (continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015. 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, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's Proportionate Share of the Net Pension Liability	\$26,311,350	\$18,941,627	\$12,709,429

Social Security

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2016, one of the Board of Education members has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

School Employees Retirement System (SERS)

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 14 - Postemployment Benefits (continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation 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 2016, this amount was \$23,000. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$40,800.

The School District's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 was \$0, \$17,698, and \$2,816 respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System (STRS)

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

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016, and June 30, 2015, STRS did not allocate any employer contributions to postemployment health care. For the fiscal year ended June 30, 2014, 1 percent of covered payroll was allocated to postemployment health care. The School District's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$71,455 respectively. The full amount has been contributed for all three fiscal years.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 15 - Other Employee Benefits

A. Compensated Absences

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

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

B. Health Care Benefits

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

Note 16 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2016 were as follows:

	Balance at 6/30/15	Additions	Reductions	Balance at 6/30/16	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
General Obligation Bonds					
School Facilities Construction and Improvement FY 2009					
Serial Bonds 3-4.5%	\$1,205,000	\$0	\$250,000	\$955,000	\$275,000
Term Bonds 5.25-5.50%	12,665,000	0	12,665,000	0	0
Capital Appreciation Bonds 13.12%	365,000	0	0	365,000	0
Accretion on Capital Appreciation Bonds	491,515	118,127	0	609,642	0
Bond Premium	552,445	0	500,301	52,144	0
Bond Discount	(219,691)	0	(198,955)	(20,736)	0
Total School Facilities Construction and Improvement FY2009	15,059,269	118,127	13,216,346	1,961,050	275,000

(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 16 - Long-Term Obligations (continued)

	Balance at 6/30/15	Additions	Reductions	Balance at 6/30/16	Amounts Due Within One Year
Governmental Activities (continued)					
General Long-Term Obligations(continued)					
General Obligation Bond (continued)					
FY2016A Refunding					
Serial Bonds (1-4%)	\$0	\$7,120,000	\$130,000	\$6,990,000	\$120,000
Term Bonds (3-3.5%)	0	1,205,000	0	1,205,000	0
Capital Appreciation Bonds (18.74-18.48%)	0	140,000	0	140,000	0
Accretion on Capital Appreciation Bonds	0	22,813	0	22,813	0
Bond Premium	0	1,407,108	21,609	1,385,499	0
Total FY2016A Refunding	<u>0</u>	<u>9,894,921</u>	<u>151,609</u>	<u>9,743,312</u>	<u>120,000</u>
FY2016B Refunding					
Serial Bonds (1-4%)	0	3,950,000	0	3,950,000	105,000
Capital Appreciation Bonds (10.24%)	0	250,000	0	250,000	0
Accretion on Capital Appreciation Bonds	0	7,508	0	7,508	0
Bond Premium	0	585,374	0	585,374	0
Total FY2016B Refunding	<u>0</u>	<u>4,792,882</u>	<u>0</u>	<u>4,792,882</u>	<u>105,000</u>
Total General Obligation Bonds	<u>15,059,269</u>	<u>14,805,930</u>	<u>13,367,955</u>	<u>16,497,244</u>	<u>500,000</u>
Net Pension Liability					
SERS	3,824,706	256,573	0	4,081,279	0
STRS	16,740,714	2,200,913	0	18,941,627	0
Total Net Pension Liability	<u>20,565,420</u>	<u>2,457,486</u>	<u>0</u>	<u>23,022,906</u>	<u>0</u>
Compensated Absences Payable	818,940	245,085	150,362	913,663	29,518
Capital Leases Payable	82,869	0	82,869	0	0
Total Governmental Activities Long-Term Obligations	<u>\$36,526,498</u>	<u>\$17,508,501</u>	<u>\$13,601,186</u>	<u>\$40,433,813</u>	<u>\$529,518</u>

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 16 - Long-Term Obligations (continued)

FY 2009 School Facilities Construction and Improvement Bonds - On November 25, 2008, the School District issued \$15,000,000 in voted general obligation bonds for constructing, renovating, and adding to buildings; furnishing and equipping buildings; and improving School District sites. The bond issue included serial, term, and capital appreciation bonds, in the original amount of \$1,970,000, \$12,665,000, and \$365,000, respectively. The bonds were issued for a twenty-eight fiscal year period, with final maturity during fiscal year 2037. During fiscal year 2016, all of the term bonds were refunded, in the amount of \$12,665,000. The remaining bonds will be retired through the Bond Retirement debt service fund.

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

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2020 through 2023. The maturity amount of the bonds is \$1,840,000. For fiscal year 2016, \$118,127 was accreted on the capital appreciation bonds for a total value of \$974,642 at fiscal year end.

FY 2016A Refunding School Improvement Bonds - On August 27, 2015, the School District issued general obligation bonds, in the amount of \$8,465,000, to partially refund bonds previously issued in fiscal year 2009 for constructing, renovating, and adding to buildings; furnishing and equipping buildings; and improving School District sites. The refunding bond issue includes serial, term, and capital appreciation bonds, in the amount of \$7,120,000, \$1,205,000, and \$140,000, respectively. The bonds were issued at a premium of \$1,407,108. The bonds were issued for a twenty-one fiscal year period, with maturity in fiscal year 2037. The bonds are being retired through the Bond Retirement debt service fund.

The net proceeds of the refunding bond issue, in the amount of \$9,716,391, were used to purchase U.S. government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the FY 2009 School Facilities Construction and Improvement Bonds. As a result, \$8,465,000 of the FY 2009 School Facilities Construction and Improvement Bonds are considered to be defeased and the liability for the bonds has been removed from the School District's financial statements.

Although the refunding will result in the recognition of an accounting loss of \$1,251,391, the School District in effect decreased its aggregate debt service payments by \$3,354,738 over the next twenty-one years and had an economic gain (difference between present values of the old and new debt service payments) of \$2,376,485.

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 16 - Long-Term Obligations (continued)

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

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

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

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

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

Year	Amount
2027	\$160,000

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

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

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2030 and 2031. The maturity amount of the bonds is \$1,930,000. For fiscal year 2016, \$22,813 was accreted on the capital appreciation bonds for a total value of \$162,813 at fiscal year end.

As of June 30, 2016, \$8,465,000 of the refunded bonds was still outstanding.

FY 2016B Refunding School Improvement Bonds - On March 15, 2016, the School District issued general obligation bonds, in the amount of \$4,200,000, to partially refund bonds previously issued in fiscal year 2009 for constructing, renovating, and adding to buildings; furnishing and equipping buildings; and improving School District sites. The refunding bond issue includes serial and capital appreciation bonds, in the amount of \$3,950,000 and \$250,000, respectively. The bonds were issued at a premium of \$585,374. The bonds were issued for a thirteen fiscal year period, with maturity in fiscal year 2029. The bonds are being retired through the Bond Retirement debt service fund.

The net proceeds of the refunding bond issue, in the amount of \$4,748,054, were used to purchase U.S. government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the FY 2009 School Facilities Construction and Improvement Bonds. As a result, \$4,200,000 of the FY 2009 School Facilities Construction and Improvement Bonds are considered to be defeased and the liability for the bonds has been removed from the School District's financial statements.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 16 - Long-Term Obligations (continued)

Although the refunding will result in the recognition of an accounting loss of \$548,054, the School District in effect decreased its aggregate debt service payments by \$976,983 over the next twenty-one years and had an economic gain (difference between present values of the old and new debt service payments) of \$838,909.

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

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal year 2024. The maturity amount of the bonds is \$540,000. For fiscal year 2016, \$7,508 was accreted on the capital appreciation bonds for a total value of \$257,508 at fiscal year end.

As of June 30, 2016, \$4,200,000 of the refunded bonds was still outstanding.

The School District pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 13 to the basic financial statements.

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

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

The School District's overall debt margin was \$7,288,469 with an unvoted debt margin of \$224,739 at June 30, 2016.

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2016, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds				
	Serial	Term	Capital Appreciation	Interest	Total
2017	\$500,000	\$0	\$0	\$460,919	\$960,919
2018	495,000	0	0	445,000	940,000
2019	575,000	0	0	426,500	1,001,500
2020	200,000	0	100,000	729,525	1,029,525
2021	205,000	0	90,000	750,825	1,045,825
2022-2026	1,405,000	725,000	425,000	3,054,375	5,609,375
2027-2031	2,160,000	480,000	140,000	3,169,238	5,949,238
2032-2036	5,190,000	0	0	757,487	5,947,487
2037	1,165,000	0	0	23,300	1,188,300
	<u>\$11,895,000</u>	<u>\$1,205,000</u>	<u>\$755,000</u>	<u>\$9,817,169</u>	<u>\$23,672,169</u>

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 17 - Fund Balance

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

Fund Balance	General	Bond Retirement	Permanent Improvement	Other Governmental	Total Governmental Funds
Nonspendable for:					
Materials and Supplies					
Inventory	\$48,910	\$0	\$0	\$2,759	\$51,669
Prepaid Items	8,343	0	0	0	8,343
Total Nonspendable	<u>57,253</u>	<u>0</u>	<u>0</u>	<u>2,759</u>	<u>60,012</u>
Restricted for:					
Athletics and Music	0	0	0	82,322	82,322
Building Construction	0	0	0	95,621	95,621
Bus Purchase	2,170	0	0	0	2,170
Debt Retirement	0	916,954	0	0	916,954
Education Management Information Systems	0	0	0	3,359	3,359
Food Service Operations	0	0	0	346,474	346,474
Network Connectivity	0	0	0	5,400	5,400
Regular Instruction	0	0	0	121	121
School Facilities Maintenance	0	0	0	789,497	789,497
Total Restricted	<u>2,170</u>	<u>916,954</u>	<u>0</u>	<u>1,322,794</u>	<u>2,241,918</u>
Committed for:					
Building Construction	0	0	1,218,194	0	1,218,194
Assigned for:					
Educational Activities	20,288	0	0	0	20,288
Extracurricular Activities	8,004	0	0	0	8,004
Projected Budget Shortage	82,628				82,628
Unpaid Obligations	206,394	0	0	0	206,394
Total Assigned	<u>317,314</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>317,314</u>
Unassigned (Deficit)	5,293,298	0	0	(34,197)	5,259,101
Total Fund Balance	<u>\$5,670,035</u>	<u>\$916,954</u>	<u>\$1,218,194</u>	<u>\$1,291,356</u>	<u>\$9,096,539</u>

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 18 - Interfund Transfers

During fiscal year 2016, the General Fund made transfers to the Permanent Improvement capital projects fund, in the amount of \$300,000, to subsidize operations of the fund.

Note 19 - Set Asides

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

The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2016.

	<u>Capital Improvements</u>
Balance June 30, 2015	\$0
Current Year Set Aside Requirement	312,394
Current Year Offsets	<u>(312,394)</u>
Balance June 30, 2016	<u>\$0</u>

Note 20 - Jointly Governed Organizations

A. Metropolitan Educational Technology Association

The School District is a participant in the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an association of public school districts within the boundaries of Athens, Crawford, Delaware, Erie, Franklin, Knox, Licking, Lorain, Marion, Morrow, Muskingum, Union, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of META consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2016, the School District paid \$30,813 to META for various services. Financial information can be obtained from META, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

Note 20 - Jointly Governed Organizations (continued)

B. Tri-Rivers Joint Vocational School

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

C. Metropolitan Educational Council

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

Note 21 - Insurance Pool

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

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

Note 22 - Related Organization

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 23 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

B. School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016, foundation funding for the School District, therefore, any financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

C. Litigation

The School District is party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District is unable to determine the impact the disposition of this case may have on its financial condition as of the date of the financial statements.

Note 24 - Subsequent Event

The Highland Community Park donated the 40 acre Highland Community Park complex to the Highland Local School District. Highland Local School District approved to accept the donation on February 8, 2017.

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

	2015	2014	2013
School District's Proportion of the Net Pension Liability	0.07152490%	0.07557300%	0.07557300%
School District's Proportionate Share of the Net Pension Liability	\$4,081,279	\$3,824,707	\$4,494,084
School District's Covered Employee Payroll	\$2,158,264	\$2,011,244	\$2,155,656
School District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	189.10%	190.17%	208.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

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

	2015	2014	2013
School District's Proportion of the Net Pension Liability	0.06853702%	0.06882538%	0.06882538%
School District's Proportionate Share of the Net Pension Liability	\$18,941,927	\$16,740,714	\$19,941,429
School District's Covered Employee Payroll	\$7,114,064	\$7,145,508	\$6,841,615
School District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	266.26%	234.28%	291.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$308,003	\$284,459	\$263,473	\$282,391
Contributions in Relation to the Contractually Required Contribution	<u>(308,003)</u>	<u>(284,459)</u>	<u>(263,473)</u>	<u>(282,391)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Employee Payroll	\$2,200,021	\$2,158,264	\$2,011,244	\$2,155,656
Contributions as a Percentage of Covered Employee Payroll	14.00%	13.18%	13.10%	13.10%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$273,547	\$262,025	\$274,700	\$195,387	\$175,848	\$191,751
<u>(273,547)</u>	<u>(262,025)</u>	<u>(274,700)</u>	<u>(195,387)</u>	<u>(175,848)</u>	<u>(191,751)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,153,913	\$2,218,671	\$2,149,452	\$2,149,472	\$1,919,738	\$1,795,421
12.70%	11.81%	12.78%	9.09%	9.16%	10.68%

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$1,018,847	\$995,969	\$928,916	\$889,410
Contributions in Relation to the Contractually Required Contribution	<u>(1,018,847)</u>	<u>(995,969)</u>	<u>(928,916)</u>	<u>(889,410)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Employee Payroll	\$7,277,479	\$7,114,064	\$7,145,508	\$6,841,615
Contributions as a Percentage of Covered Employee Payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$874,963	\$901,431	\$904,104	\$894,679	\$845,123	\$829,114
<u>(874,963)</u>	<u>(901,431)</u>	<u>(904,104)</u>	<u>(894,679)</u>	<u>(845,123)</u>	<u>(829,114)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$6,730,485	\$6,934,085	\$6,954,646	\$6,882,146	\$6,500,946	\$6,377,800
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education</i>		
Child Nutrition Cluster:		
Non-Cash Assistance (Food Distribution)		
National School Lunch Program	10.555	\$ 48,497
Cash Assistance:		
Breakfast Program	10.553	76,764
National School Lunch Program	10.555	310,113
Total Child Nutrition Cluster		386,877
Total U.S. Department of Agriculture		435,374
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education</i>		
Title I Grants to Local Educational Agencies	84.010	459,739
Special Education Grants to States	84.027	293,498
Improving Teacher Quality State Grants	84.367	58,988
Race to the Top	84.395	3,302
Rural Education	84.358	33,177
Total U.S. Department of Education		848,704
Total Expenditures of Federal Awards		\$ 1,284,078

The accompanying notes are an integral part of this schedule.

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Highland Local School District's (the District's) under programs of the federal government for the year ended June 30, 2016. 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, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or 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 - 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 D – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Highland Local School District, Morrow County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 16, 2017.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

Compliance and Other Matters

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

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

March 16, 2017



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

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

To the Board of Education:

We have audited the Highland Local School District's (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 Highland Local School District's major federal programs for the year ended June 30, 2016. 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 Highland Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2016.

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

March 16, 2017

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS
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<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)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 Title I Grants to Local Education Agencies CFDA #84.027 Special Education Grants to States
<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

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016
(Continued)**

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

FINDING NUMBER 2016-001

Financial Reporting – Material Weakness

The compilation and presentation of materially correct financial statements and the related footnotes is the responsibility of management of the District. This responsibility remains intact, even if management outsources this function for efficiency purposes, or any other reason, to another accountant or consultant.

It is also important to note that independent auditors are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements. Thus, it is important that management develop control procedures related to drafting financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and footnotes prior to audit.

An adjustment was necessary to correct an overstatement of retainage payable as of June 30, 2016 in the amount of \$280,441 in the Permanent Improvement fund and Governmental Activities.

We recommend that the District implement effective control procedures over the financial reporting process in order to enable management to prevent and detect potential misstatements in the financial statements and footnotes.

The District's financial statements and accounting records have been adjusted to accurately reflect the audited amounts.

Officials' Response: See Corrective Action Plan.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2016

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	Review in greater detail the LGS draft report prior to providing to State Auditors to insure correct retainage and payables are represented.	11/9/17	Jon Mason, Treasurer

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Dave Yost • Auditor of State

HIGHLAND LOCAL SCHOOL DISTRICT

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 11, 2017