



Dave Yost • Auditor of State

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Hardin-Houston Local School District
Shelby County
5300 Houston Road
Houston, Ohio 45333

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin-Houston Local School District, Shelby County, Ohio (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin-Houston Local School District, Shelby County, Ohio, as of June 30, 2015, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplemental Information

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

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

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2017, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

February 3, 2017

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Hardin Houston Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

This discussion and analysis of the Hardin Houston Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015, within the limitations of the School District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2015 are as follows:

Net position of governmental activities increased \$702,669 from prior year.

Of the School District's \$18,655,374 in cash disbursements, \$2,370,926 of the disbursements were offset by program receipts.

Among major funds, the General Fund had \$8,709,870 in receipts and \$7,984,813 in disbursements. The General Fund's balance increased \$690,064 from 2014.

During 2015, the School District issued \$7,564,993 in general obligation bonds with interest rates ranging from 1.75% to 4% to advance refund \$7,565,000 of the 2008 Classroom Facilities Bonds with interest rates ranging from 3% to 5%. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,014,893. The School completed the advance refunding to reduce its total debt service payments over the next 22 years by \$1,149,982 and which resulted in an economic loss (difference between the present value of the old and new debt) of \$1,018,098.

During fiscal year 2015, the School District implemented GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27," which significantly revised accounting for pension costs and liabilities. While the School District reports on a cash basis, the School District has included information about the net pension liability in its notes to the financial statements in accordance with the Auditor of State's requirements.

Using the Basic Financial Statements

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

Report Components

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

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

Hardin Houston Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)
(Continued)

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a cash basis of accounting.

This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2015, within the limitations of cash basis accounting. The statement of net position presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net position and the statement of activities, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

Hardin Houston Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)
(Continued)

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides.

Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the School District's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund, Bond Retirement Debt Service Fund and Permanent Improvement Capital Projects Fund.

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 of these funds are not available to support the School District's programs.

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2015 compared to fiscal year 2014 on a cash basis:

Hardin Houston Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)
(Continued)

(Table 1)
Net Position

	Governmental Activities	
	2014	2015
Assets		
Equity in Pooled Cash and Cash Equivalents	\$4,339,893	\$5,042,562
Net Position		
Restricted for:		
Capital Projects	\$943,393	\$830,190
Debt Service	415,514	520,348
School Bus Purchases	64,358	64,358
Other Purposes	551,583	572,557
Unrestricted	2,365,045	3,055,109
Total Net Position	\$4,339,893	\$5,042,562

As mentioned previously, net position of governmental activities increased \$702,669 during fiscal year 2015. Unrestricted net position increased \$690,064 as a result of general operating receipts exceeding disbursements. This followed an increase of \$354,376 for fiscal year 2014. Net position restricted for capital projects decreased as monies for the building construction project were spent. Net position restricted for school bus purchases remained the same as no additional monies were received in fiscal year 2015 and no money was spent in fiscal year 2015. Net position for other purposes increased primarily due to increases in net position in the capital maintenance fund.

Table 2 reflects the changes in net position for fiscal year 2015 and fiscal year 2014.

Hardin Houston Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)
(Continued)

(Table 2)
Changes in Net Position

	Governmental Activities 2014	Governmental Activities 2015
Receipts:		
Program Receipts:		
Charges for Services	\$1,364,564	\$1,280,616
Operating Grants and Contributions	498,010	1,090,310
Total Program Receipts	<u>1,862,574</u>	<u>2,370,926</u>
General Receipts:		
Property Taxes	2,417,562	2,701,586
Income Taxes	747,067	765,579
Grants and Entitlements Not Restricted to Specific Programs	4,747,622	4,558,970
Refunding Bonds Issued	0	7,564,993
Premium on Refunding Bonds	0	1,361,554
All Other Categories	212,640	34,435
Total General Receipts	<u>8,124,891</u>	<u>16,987,117</u>
Total Receipts	<u>9,987,465</u>	<u>19,358,043</u>
Disbursements:		
Instruction	4,954,267	5,193,157
Support Services:		
Pupils and Instructional Staff	1,027,367	1,025,595
Board of Education, Administration, Fiscal and Business	808,860	828,294
Operation and Maintenance of Plant	780,558	858,366
Pupil Transportation	567,408	626,927
Central	15,470	17,480
Operation of Non-Instructional Services	257,370	258,128
Extracurricular Activities	203,354	241,229
Capital Outlay	124,300	21,100
Intergovernmental	0	200,018
Debt Service	652,756	9,385,080
Total Disbursements	<u>9,391,710</u>	<u>18,655,374</u>
Increase (Decrease) in Net Position	595,755	702,669
Net Position, Beginning of Year	3,744,138	4,339,893
Net Position, End of Year	<u>\$4,339,893</u>	<u>\$5,042,562</u>

During fiscal year 2015, the School District issued capital facilities refunding bonds, which contributed to the large increase in general receipts.

The decrease in the all other categories of revenue was the result of the sale of Hardin Property in fiscal year 2014. The School District sold the property for \$165,000.

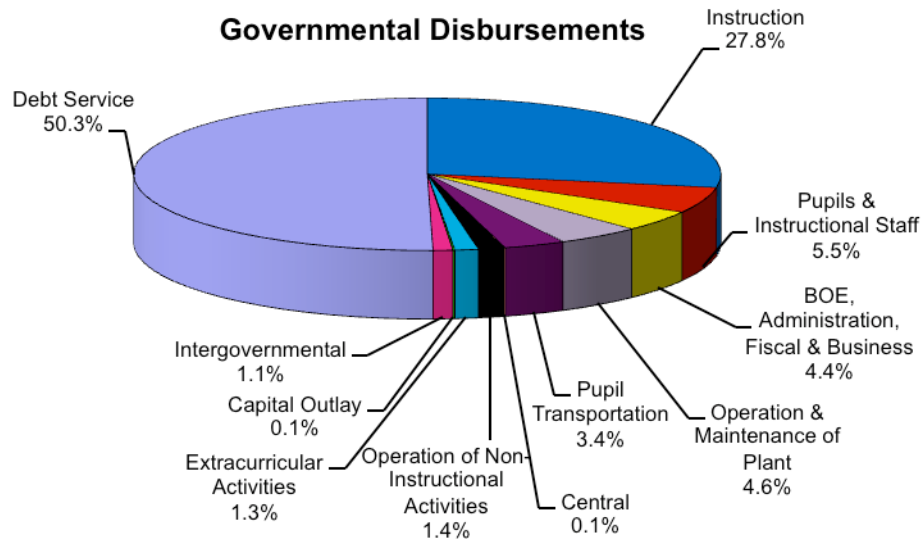
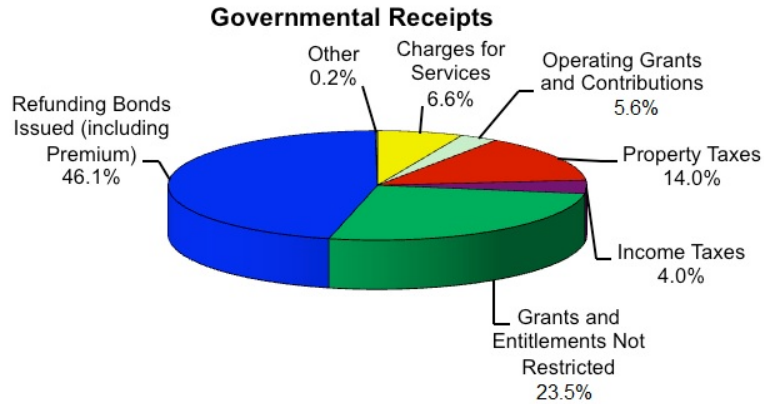
Intergovernmental expenditure increased as the result of returning capital facilities money to the State.

Debt service disbursements increased due to the School District issuing capital facilities refunding bonds.

Hardin Houston Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
 (Unaudited)
 (Continued)

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. For fiscal year 2015, property and income taxes make up 18% of the School District's receipts. Grants and entitlements not restricted consist largely of state foundation monies.



If you look at the statement of activities on page 16, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services.

The next three columns of the statement entitled program cash receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net receipt (disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

Hardin Houston Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)
(Continued)

(Table 3)

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2014	2014	2015	2015
Instruction	\$4,954,267	(\$3,619,261)	\$5,193,157	(\$3,409,582)
Support Services:				
Pupils and Instructional Staff	1,027,367	(839,308)	1,025,595	(837,769)
Board of Education, Administration, Fiscal and Business	808,860	(808,860)	828,294	(828,294)
Operation and Maintenance of Plant	780,558	(757,963)	858,366	(814,983)
Pupil Transportation	567,408	(561,808)	626,927	(588,617)
Central	15,470	(15,470)	17,480	(17,480)
Operation of Non-Instructional Services	257,370	(6,491)	258,128	(7,236)
Extracurricular Activities	203,354	(142,919)	241,229	(174,289)
Capital Outlay/Intergovernmental	124,300	(124,300)	221,118	(221,118)
Debt Service	652,756	(652,756)	9,385,080	(9,385,080)
Total Disbursements	<u>\$9,391,710</u>	<u>(\$7,529,136)</u>	<u>\$18,655,374</u>	<u>(\$16,284,448)</u>

The dependence upon state foundation and property and income tax receipts is apparent from the large amounts for the net cost of services.

The School District's Funds

Total governmental funds had receipts of \$10,431,496 and disbursements of \$9,849,777. The fund balance of the General Fund increased \$690,064. The increases in property tax receipts and state foundation monies contributed to the increase.

The fund balance of the Bond Retirement debt service fund increased \$104,834 due to disbursements for debt payments being less than property taxes collected.

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.

For the General Fund, the final budget basis revenue estimate was \$8,229,900, which was the same as the original. Property taxes and state foundation revenues were higher than anticipated.

During fiscal year 2015, the School District closely monitored expenditures so that expenditures were \$170,590 less than appropriations. Increases in appropriations were primarily for regular instruction.

Hardin Houston Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)
(Continued)

Capital Assets and Debt Administration

Capital Assets

The School District does not currently report its capital assets and infrastructure; however, it tracks its capital assets for insurance purposes.

Debt

At June 30, 2015, the School District had \$8,359,361 in debt outstanding.

Table 4
Outstanding Debt at June 30,

	Amount Outstanding 6/30/14	Amount Outstanding 6/30/15	Amount Due in One Year
Governmental Activities			
Classroom Facilities Improvement Bonds			
Serial Bonds	\$4,335,000	\$265,000	\$265,000
Term Bonds	3,750,000	-	-
Capital Appreciation Bonds	441,180	529,368	-
Classroom Facilities Refunding Bonds			
Serial Bonds	-	6,495,000	200,000
Term Bonds	-	890,000	-
Capital Appreciation Bonds	-	179,993	-
Total Governmental Activities	-	-	-
Long-Term Liabilities	\$8,526,180	\$8,359,361	\$465,000

During fiscal year 2015, the School District issued Classroom Facilities Refunding Bonds in the amount of \$7,564,993. For more information on the School District's debt, see Note 10 of the Basic Financial Statements.

Current Issues

The School District historically fluctuates back and forth of a break-even point over the past several years. The administration and the board of education continue to closely monitor State funding as there continues to be a reliance on the local taxpayer to maintain current levels of funding. This requires management to plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years.

On August 5, 2008, the voters of the School District approved a 7.05 mill levy. A portion of the levy, 6.55 mills, is a bond levy that was used to pay for the local portion, \$9,209,676, needed to build the new K-12 facility. The Ohio School Facilities Commission approved the remaining portion, \$13,814,515 for the School District. The ground breaking began in the late summer of 2009. The remaining portion of the levy .5 mills will generate funds needed to help maintain the new facility. The new facility was opened for the start of the fiscal year 2012 school year.

Hardin Houston Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)
(Continued)

The School District has received an AA- bond rating from Standard and Poor's.

In conclusion, the Hardin Houston Local School District continues to be committed to financial as well as educational excellence. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

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 show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Amy Ayers, 5300 Houston Road, Houston, OH 45333 or e-mail at aayers@houston.k12.oh.us.

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HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2015

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$5,042,562</u>
Net Position	
Restricted for:	
Capital Projects	\$830,190
Debt Service	520,348
School Bus Purchases	64,358
Other Purposes	572,557
Unrestricted	<u>3,055,109</u>
<i>Total Net Position</i>	<u>\$5,042,562</u>

See accompanying notes to the basic financial statements

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$4,171,827	\$1,077,256	\$32,727	\$0	(\$3,061,844)
Special	824,496	-	660,371	-	(164,125)
Vocational	116,042	3,420	9,801	-	(102,821)
Student Intervention Services	3,078	-	-	-	(3,078)
Other	77,714	-	-	-	(77,714)
Support Services:					
Pupil	856,795	9,199	176,031	-	(671,565)
Instructional Staff	168,800	1,596	1,000	-	(166,204)
Board of Education	7,184	-	-	-	(7,184)
Administration	553,048	-	-	-	(553,048)
Fiscal	266,832	-	-	-	(266,832)
Business	1,230	-	-	-	(1,230)
Operation and Maintenance of Plant	858,366	43,383	-	-	(814,983)
Pupil Transportation	626,927	6,479	31,831	-	(588,617)
Central	17,480	-	-	-	(17,480)
Operation of Non-Instructional Services	258,128	78,056	172,836	-	(7,236)
Extracurricular Activities	241,229	61,227	5,713	-	(174,289)
Capital Outlay	21,100	-	-	-	(21,100)
Intergovernmental	200,018	-	-	-	(200,018)
Principal Retirement	255,000	-	-	-	(255,000)
Payment to Refunded Bond Escrow Agent	8,805,597	-	-	-	(8,805,597)
Interest and Fiscal Charges	206,703	-	-	-	(206,703)
Issuance Costs	117,780	-	-	-	(117,780)
Total Governmental Activities	\$18,655,374	\$1,280,616	\$1,090,310	\$0	(16,284,448)
General Receipts					
Property Taxes Levied for:					
General Purposes					2,010,400
Capital Maintenance					39,690
Debt Service					651,496
Income Taxes Levied for General Purposes					510,386
Income Taxes Levied for Capital Outlay					255,193
Grants and Entitlements not Restricted to Specific Programs					4,558,970
Donations Not Restricted to Specific Programs					200
Refunding Bonds Issued					7,564,993
Premium on Refunding Bonds Issued					1,361,554
Interest					7,343
Miscellaneous					26,892
Total General Receipts					16,987,117
Change in Net Position					702,669
Net Position Beginning of Year					4,339,893
Net Position End of Year					\$5,042,562

See accompanying notes to the basic financial statements

HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$3,055,109	\$520,348	\$725,220	\$677,527	\$4,978,204
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	<u>64,358</u>				<u>64,358</u>
<i>Total Assets</i>	<u>\$3,119,467</u>	<u>\$520,348</u>	<u>\$725,220</u>	<u>\$677,527</u>	<u>\$5,042,562</u>
Fund Balances					
Restricted	\$64,358	\$520,348	\$725,220	\$677,527	\$1,987,453
Assigned	320,713				320,713
Unassigned	<u>\$2,734,396</u>				<u>2,734,396</u>
<i>Total Fund Balances</i>	<u>\$3,119,467</u>	<u>\$520,348</u>	<u>\$725,220</u>	<u>\$677,527</u>	<u>\$5,042,562</u>

See accompanying notes to the basic financial statements

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30,2015**

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts					
Property Taxes	\$2,010,400	\$651,496		\$39,690	\$2,701,586
Income Taxes	510,386		255,193		765,579
Intergovernmental	5,034,859	95,308		509,722	5,639,889
Interest	7,155		188	385	7,728
Tuition and Fees	1,075,404				1,075,404
Extracurricular Activities	10,795			61,227	72,022
Contributions and Donations	615			8,591	9,206
Charges for Services	3,086			98,554	101,640
Rent	100				100
Miscellaneous	57,070			1,272	58,342
<i>Total Receipts</i>	<u>8,709,870</u>	<u>746,804</u>	<u>255,381</u>	<u>719,441</u>	<u>10,431,496</u>
Disbursements					
Current:					
Instruction:					
Regular	4,057,738		64,781	49,308	4,171,827
Special	709,797			114,699	824,496
Vocational	116,042				116,042
Student Intervention Services	3,078				3,078
Other	77,714				77,714
Support Services:					
Pupil	681,179			175,616	856,795
Instructional Staff	142,549		25,251	1,000	168,800
Board of Education	7,184				7,184
Administration	553,048				553,048
Fiscal	246,094	15,943	3,828	967	266,832
Business	1,230				1,230
Operation and Maintenance of Plant	660,716		157,022	40,628	858,366
Pupil Transportation	533,547		85,177	8,203	626,927
Central	17,480				17,480
Operation of Non-Instructional Services	-			258,128	258,128
Extracurricular Activities	156,317			84,912	241,229
Capital Outlay	21,100				21,100
Intergovernmental				200,018	200,018
Debt Service:					
Principal Retirement		255,000			255,000
Interest and Fiscal Charges		206,703			206,703
Issuance Costs		117,780			117,780
<i>Total Disbursements</i>	<u>7,984,813</u>	<u>595,426</u>	<u>336,059</u>	<u>933,479</u>	<u>9,849,777</u>
<i>Excess of Revenues Under Expenditures</i>					
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>725,057</u>	<u>151,378</u>	<u>(80,678)</u>	<u>(214,038)</u>	<u>581,719</u>
Other Financing Sources (Uses)					
Refunding Bonds Issued		7,564,993			7,564,993
Premium on Refunding Bonds Issued		1,361,554			1,361,554
Payment to Refunded Bond Escrow Agent		(8,805,597)			(8,805,597)
Transfers In	7		364,448	35,000	399,455
Transfers Out	(35,000)	(167,494)		(196,961)	(399,455)
<i>Total Other Financing Sources (Uses)</i>	<u>(34,993)</u>	<u>(46,544)</u>	<u>364,448</u>	<u>(161,961)</u>	<u>120,950</u>
<i>Net Change in Fund Balances</i>	690,064	104,834	283,770	(375,999)	702,669
<i>Fund Balances Beginning of Year</i>	<u>2,429,403</u>	<u>415,514</u>	<u>441,450</u>	<u>1,053,526</u>	<u>4,339,893</u>
<i>Fund Balances End of Year</i>	<u>\$3,119,467</u>	<u>\$520,348</u>	<u>\$725,220</u>	<u>677,527</u>	<u>\$5,042,562</u>

See accompanying notes to the basic financial statements

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCE - BUDGET (BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Receipts:				
Property Taxes	\$1,753,000	\$1,753,000	\$2,010,400	\$257,400
Income Taxes	480,000	480,000	510,386	30,386
Intergovernmental	4,864,500	4,864,500	5,034,859	170,359
Interest	5,000	5,000	7,155	2,155
Tuition and Fees	1,119,200	1,119,200	1,075,404	(43,796)
Contributions and Donations	200	200	200	-
Rent			100	100
Charges for Services			3,086	3,086
Miscellaneous	8,000	8,000	10,066	2,066
Total Revenues	<u>8,229,900</u>	<u>8,229,900</u>	<u>8,651,656</u>	<u>421,756</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,064,100	4,141,600	4,067,638	73,962
Special	719,067	719,067	711,781	7,286
Vocational	109,290	109,290	116,042	(6,752)
Student Intervention Services	4,730	4,730	3,078	1,652
Other	75,000	75,000	77,714	(2,714)
Support Services:				
Pupils	700,382	700,382	671,612	28,770
Instructional Staff	170,959	170,959	140,864	30,095
Board of Education	7,915	7,915	7,184	731
Administration	571,495	571,495	553,048	18,447
Fiscal	247,255	277,255	246,680	30,575
Business	1,300	1,300	1,230	70
Operation and Maintenance of Plant	667,550	667,550	661,967	5,583
Pupil Transportation	448,528	538,528	533,682	4,846
Central	16,550	16,550	17,480	(930)
Extracurricular Activities	159,700	159,700	156,317	3,383
Capital Outlay	1,000	1,000	25,414	(24,414)
Total Expenditures	<u>7,964,821</u>	<u>8,162,321</u>	<u>7,991,731</u>	<u>170,590</u>
Excess of Revenues Over (Under) Expenditures	265,079	67,579	659,925	592,346
Other Financing Source (Uses)				
Refund of Prior Year Expenditure	2,000	2,000	47,004	45,004
Transfers In			7	7
Transfers Out	(15,000)	(35,000)	(35,000)	-
Total Other Financing Sources (Uses)	<u>(13,000)</u>	<u>(33,000)</u>	<u>12,011</u>	<u>45,011</u>
Net Change in Fund Balances	252,079	34,579	671,936	637,357
Fund Balance at Beginning of Year	2,403,111	2,403,111	2,403,111	-
Prior Year Encumbrances Appropriated	10,949	10,949	10,949	-
Fund Balance at End of Year	<u>\$2,666,139</u>	<u>\$2,448,639</u>	<u>\$3,085,996</u>	<u>\$637,357</u>

See Accompanying Notes to the Basic Financial Statements

HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$2,367</u>	<u>\$58,144</u>
Net Position		
Held in Trust for Scholarships	<u>2,367</u>	
Total Net Position	<u>\$2,367</u>	

See accompanying notes to the basic financial statements

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR END JUNE 30, 2015**

	<u>Private Purpose Trust</u>
Additions	
Miscellaneous	\$900
Deductions	
Scholarships	<u>900</u>
Change in Net Position	0
Net Position - Beginning of Year	<u>2,367</u>
Net Position - End of Year	<u><u>\$2,367</u></u>

See accompanying notes to the basic financial statements

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Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 1 - Reporting Entity

Hardin-Houston 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 and provides educational services as authorized by State and federal agencies. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The School District is located in Shelby County. The School District is staffed by 37 non-certificated employees, 54 certificated full-time teaching personnel who provide services to 886 students and other community members. The School District currently operates one instructional/support buildings.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

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 Hardin Houston Local School District, this includes general operations, food service, and student related activities of the School District.

B. Component Units

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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District does not have any component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 13 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Western Ohio Computer Organization
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation
Group Rating Plan
Midwest Regional Schools Consortium
Southwestern Ohio Educational Council Property, Fleet and Liability Insurance
Program

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 1 - Reporting Entity (continued)

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. However, the School District does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

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

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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 as either governmental or fiduciary.

Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available 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 Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

Permanent Improvement Fund - The Permanent Improvement Capital Project Fund is used to account for the accumulation of resources for capital improvements.

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

Fiduciary Funds

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 programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Budgetary Process

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

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

The appropriation 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 appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. 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".

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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 are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively. During fiscal year 2015, the School District invested in certificates of deposit. Investments are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2015 was \$7,155, which included \$5,454 assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of buses.

G. Inventory and Prepaid Items

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

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

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

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. Long-Term Obligations

The School District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

L. Net position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available. The School District did not have net position restricted by enabling legislation at June 30, 2015.

M. 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:

Non-spendable – The non-spendable 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 is imposed by law through constitutional provisions.

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

Assigned – Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

O. Estimates

The cash basis of accounting used by the School District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Note 3 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget (Budgetary Basis) and Actual presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and cash basis is

- 1.) Outstanding year-end encumbrances are treated as cash disbursements (budgetary) rather than as a reservation of fund balance (cash basis) and
- 2.) Perspective differences resulting from differences in fund structure.

Cash Basis	\$	690,064
Encumbrances		(18,659)
Perspective Differences		531
Budgetary Basis		\$ 671,936

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 4 - Deposits and Investments

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

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

Inactive deposits are public deposits that the Board 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 can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 4 - Deposits and Investments (continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover its deposits or collateral securities that are in possession of an outside party. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$5,103,073 and the bank balance was \$5,256,482. \$1,374,000 of the School District's deposits was insured by federal depository insurance. As of June 30, 2015, \$3,882,482 of the School District's bank balance of \$5,256,482 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Interest Rate Risk - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices.

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The federal agency securities are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the Treasurer or qualified trustee.

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 5 - Property Taxes

Property taxes include amounts levied against all real property and public utility property located in the School District.

Real property tax receipts received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value.

Public utilities subject to taxation on their tangible personal property include electric, rural electric, natural gas, pipeline, water works, water transportation, heating and telegraph companies. The tax rates vary according to the type of public utility. Public utility taxes are levied on all tangible personal property owned and located in Ohio on December 31 of the preceding year.

Real property and public utility 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.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2015 taxes were collected are:

	<u>2014 Second- Half Collections</u>		<u>2015 First- Half Collections</u>	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$93,713,810	96.31%	\$95,568,290	96.17%
Public Utility Personal	3,588,500	3.69%	3,807,880	3.83%
Total	<u>\$97,302,310</u>	<u>100.00%</u>	<u>\$99,376,170</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$35.37		\$34.12	

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 6 - Income Taxes

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. Income tax revenue is credited to the General Fund (one-half of one percent) and the Permanent Improvement Capital Projects Fund (one-fourth of one percent). The General Fund tax was effective on January 1, 1991, and the Permanent Improvement Capital Projects Fund tax was effective on January 1, 1997. Both are continuing taxes. 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.

Note 7 - Risk Management

A. Property and Liability

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 2015, the School District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program (See Note 13). The School District pays this annual premium to Southwestern Ohio Educational Purchasing Council who in turns pays Arthur Gallagher Risk Management Services Inc.

Insurance coverage provided includes the following:

Building and Contents-replacement cost (\$5,000 deductible)	\$25,300,000
Inland Marine Coverage (\$5,000 deductible)	Actual
Money and Securities	500,000
Automobile Liability (\$1000 deductible)	1,000,000
Uninsured/Underinsured Motorists (\$1000 deductible)	1,000,000
Comprehensive Liability:	
Per Occurrence	1,000,000
Aggregate	3,000,000
General Liability Umbrella Policy	5,000,000
Crime/Employee Dishonesty (\$5,000 deductible)	500,000
Fiduciary Liability (\$1,500 deductible):	
Each Offense	1,000,000
Aggregate Limit	1,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000

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

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 7 - Risk Management (continued)

B. Workers' Compensation

For fiscal year 2015, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). 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 participating school districts is calculated as one experience and a common premium rate is applied to all school districts 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control and actuarial services to the GRP.

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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

The net pension liability represents the 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.

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 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 8 - Defined Benefit Pension Plans (continued)

within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

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

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

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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 8 - Defined Benefit Pension Plans (continued)

The School District's contractually required contribution to SERS was \$116,685 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

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

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 8 - Defined Benefit Pension Plans (continued)

ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$508,296 for fiscal year 2015.

Net Pension Liability

The net pension liability was measured as of June 30, 2014, 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 projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$1,490,802	\$6,983,218	\$8,474,020
Proportion of the Net Pension Liability	0.029457%	0.0287098%	

Actuarial Assumptions - SERS

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

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

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

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 8 - Defined Benefit Pension Plans (continued)

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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement 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.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US 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	100.00 %	

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 earning 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

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 8 - Defined Benefit Pension Plans (continued)

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	\$2,126,931	\$1,490,802	\$955,769

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 8 - Defined Benefit Pension Plans (continued)

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

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	\$9,997,240	\$6,983,218	\$4,434,372

Note 9 – Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program.

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 9 – Postemployment Benefits (continued)

The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent 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 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$14,752.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$20,807, \$13,483 and \$15,505 respectively. For fiscal year 2015, 26 percent has been contributed. The full amount has been contributed for fiscal years 2014 and 2013.

State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health 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 this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$30,058, and \$31,140 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 10 – Debt

The changes in the School District’s long-term obligations during fiscal year 2015 were as follows:

	Amount Outstanding 6/30/2014	Additions	Deletions	Amount Outstanding 6/30/2015	Amount Due in One Year
Governmental Activities					
Classroom Facilities					
Improvement Bonds - 3.0-5.5%					
Serial Bonds	\$ 4,335,000	\$ -	\$ (4,070,000)	\$ 265,000	\$ 265,000
Term Bonds	3,750,000	-	(3,750,000)	-	-
Capital Appreciation Bonds	441,180	88,188	-	529,368	-
Classroom Facilities Refunding					
Bonds - 2-4%					
Serial Bonds	-	6,495,000	-	6,495,000	200,000
Term Bonds	-	890,000	-	890,000	-
Capital Appreciation Bonds	-	179,993	-	179,993	-
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 8,526,180</u>	<u>\$7,653,181</u>	<u>\$ (7,820,000)</u>	<u>\$ 8,359,361</u>	<u>\$ 465,000</u>

On December 23, 2008, the School District issued \$9,204,996 in Classroom Facilities Improvement Bonds. The bonds had a premium of \$274,769 and issuance costs of \$192,883. Of the bonds, \$5,275,000 is serial bonds with interest rates from 3% to 4.5% with a final maturity December 1, 2021. \$3,750,000 is term bonds (\$1,975,000 with a 5.25% interest rate maturing on December 1, 2033 and \$1,775,000 with a 5.5% interest rate maturing on December 1, 2036). \$179,996 is capital appreciation bonds (maturity amount of \$275,000 on December 2016, 2017, and 2018).

During 2015, the School District issued \$7,564,993 in general obligation bonds with interest rates ranging from 1.75% to 4% to advance refund \$7,565,000 of the 2008 Classroom Facilities Bonds with interest rates ranging from 3% to 5%. The net proceeds of \$8,805,597 (after payment of \$117,780 in underwriting fees, insurance and other issuance costs) were used to purchase governmental securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Classroom Facilities Bonds. As a result, this portion of the Classroom Facilities bonds are considered to be defeased and the liability for those bonds have been removed from the government-wide statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,014,893. The School completed the advance refunding to reduce its total debt service payments over the next 22 years by \$1,149,982 and which resulted in an economic loss (difference between the present value of the old and new debt) of \$1,018,098.

The Classroom Facilities Refunding bonds, dated May 12, 2015, had a premium of \$1,361,554 and issuance costs of \$117,780. Of the bonds \$6,495,000 are serial bonds with interest rates ranging from 2 to 4%, \$890,000 are term bonds with a 2.75% interest rate, and \$179,993 are capital appreciation bonds, maturing on December 1, 2022, 2023, and 2024 with a maturity value of \$390,000.

The term bonds due December 1, 2029, are subject to mandatory sinking fund redemption as follows:

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 10 – Debt (continued)

Year	Amount to be Redeemed
2028	\$440,000

The remaining \$450,000 principal amount of the bonds due December 1, 2029, is to be paid at stated maturity.

The School District's overall debt margin was \$1,454,214, the energy conservation debt margin was \$894,386 and the un-voted debt margin was \$99,376 at June 30, 2015.

Principal and interest requirements to retire the general obligation bonds and loans outstanding at June 30, 2015, are as follows:

Fiscal Year Ending June 30,	Capital Facilities Bonds		Refunding Bonds, 2015	
	Principal	Interest	Principal	Interest
2016	\$265,000	\$9,938	\$200,000	\$261,418
2017	70,524	204,476	90,000	245,312
2018	59,417	215,583	90,000	243,513
2019	50,055	224,945	100,000	241,612
2020	0	0	370,000	237,376
2021-2025	0	0	939,993	2,104,213
2026-2030	0	0	2,115,000	904,738
2031-2035	0	0	2,505,000	489,700
2036-2037	0	0	1,155,000	46,700
Subtotal	444,996	654,942	7,564,993	4,774,582
Accretion	349,372	(349,372)	0	0
Total	\$794,368	\$305,570	\$7,564,993	\$4,774,582

Note 11 – 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:

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 11 – Fund Balance (continued)

<u>Fund Balance</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for:					
Food Service Operations				\$200,143	\$200,143
Chamber of Commerce Grant				2,384	2,384
Classroom Maintenance				333,419	333,419
Athletics				27,092	27,092
Bus Purchases	64,358				64,358
Capital Improvements			725,220	104,970	830,190
Debt Service		520,348			520,348
State and Federal Grants				8,704	8,704
Copeland/Walmart Grant				815	815
Total Restricted	<u>64,358</u>	<u>520,348</u>	<u>725,220</u>	<u>677,527</u>	<u>1,987,453</u>
Assigned for:					
Unpaid Obligations	18,660				18,660
Public School Supprt	12,054				12,054
Subsequent Appropriations	289,999				289,999
Total Assigned	<u>320,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,713</u>
Unassigned	2,734,396	-	-	-	2,734,396
Total Fund Balance	<u>\$3,119,467</u>	<u>\$ 520,348</u>	<u>\$ 725,220</u>	<u>\$ 677,527</u>	<u>\$ 5,042,562</u>

Note 12 – Set-Aside Requirements

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. Amounts 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. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves capital improvements during fiscal year 2015.

	<u>Capital Acquisitions</u>
Set-aside Reserve Balance as of June 30, 2014	\$0
Current Year Set-aside Requirement	159,360
Current Year Offsets	<u>(159,360)</u>
Set-aside Balances	<u>\$0</u>
Amount of Set-aside Carried Forward to Future Fiscal Years	<u>\$0</u>

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 13 - Jointly Governed Organizations and Insurance Purchasing Pools

A. Jointly Governed Organizations

Western Ohio Computer Organization - The Hardin-Houston Local School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. The Western Ohio Computer Organization is one of the 23 Information Technology Center's (ITC) in the state of Ohio, which were formed in the late 70's, early 80's. These "ITC's" were originally charged to provide computer services to the member school district's fiscal offices, forming what is known today as the OECN, The Ohio Educational Computer Network. WOCO began its operations in 1980 providing computer services to 29 members school districts located in the five county area of Shelby, Auglaize, Hardin, Logan and Champaign. Today WOCO provides technical services to 34 public school districts, 5 public charter schools and 4 non-public districts.

The governing board of WOCO consists of fourteen members who consist of the Superintendent of the Fiscal Agent, two Superintendents from each county (Auglaize, Champaign, Hardin, Logan and Shelby), one representative from the city schools and one representative each from the treasurer and student services users. The School District paid WOCO \$58,193 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 E. Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2015, the School District paid \$47,600 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 13 - Jointly Governed Organizations and Insurance Purchasing Pools (continued)

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2015, the School District paid \$0 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Frank DePalma, who serves as Interim Director, at 1205 E. Fifth Street, Dayton, OH 45402.

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a ten member committee consisting of the Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by a majority vote of all member school districts. The Chief administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Midwest Regional Schools Consortium - The Midwest Regional Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental, and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider, currently Anthem Blue Cross/Blue Shield for health and dental insurance, and Sun Life Financial for life insurance. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the service center. The degree of control exercised by any participating school district is limited to its representation on the committee. During 2015, the School District paid \$878,601 for benefits. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 North Ludlow St., Dayton, Ohio 45402.

Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program - The School District participates in the Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. During fiscal year 2015, the School District paid \$46,943 for insurance coverage. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Hardin Houston Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015
(Continued)

Note 14 – Interfund

During fiscal year 2015, the General Fund transferred \$35,000 to the Athletic Fund to provide support needed. In addition, the Classroom Facilities Construction Fund transferred \$196,954 to the Permanent Improvement Fund as the project was finalized. The Bond Retirement Fund transferred \$167,494 to the Permanent Improvement Fund. Finally, the EMIS and E-tech Professional Development special revenue funds, shown with Other Governmental Funds transferred \$3 and \$4, respectively, during fiscal year 2015 to the General Fund.

Note 15 – Contingent Liabilities

Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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, 2015.

Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, 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, 2015 Foundation funding for the School District.

Litigation

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

Note 16 – Changes in Accounting Principle

For fiscal year 2015, the School District has implemented Governmental Accounting Standard Board (GASB) *Statement No. 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27"* and *Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date."* GASB *Statement No. 68* improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB *Statement No. 71*, amends GASB *Statement No. 68* and is effective with the provisions of GASB *Statement No. 68*. The implementation of these statements is described further in Note 8. The implementation of these statements did not results in any changes to net position reported as of June 30,2014, as the net pension liability is not reported financial statements prepared following another comprehensive basis of accounting.

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**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE					
<i>(Passed through Ohio Department of Education)</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$ 27,489		\$ 27,489	
National School Lunch Program	10.555	141,471	\$ 25,678	141,471	\$ 25,678
Total Child Nutrition Cluster		<u>168,960</u>	<u>25,678</u>	<u>168,960</u>	<u>25,678</u>
Total U.S. Department of Agriculture		<u>168,960</u>	<u>25,678</u>	<u>168,960</u>	<u>25,678</u>
U.S. DEPARTMENT OF EDUCATION					
<i>(Passed through Ohio Department of Education)</i>					
Title I Grants to Local Educational Agencies - FY14		(6,227)		10,266	
Title I Grants to Local Educational Agencies - FY15	84.010	112,468		103,764	
Total Title I Grants to Local Educational Agencies		<u>106,241</u>		<u>114,030</u>	
Special Education Cluster:					
Special Education_Grants to States - FY15	84.027	175,616		175,616	
Total Special Education Cluster		<u>175,616</u>		<u>175,616</u>	
Improving Teacher Quality State Grants - FY15	84.367	26,249		26,249	
Total Improving Teacher Quality State Grants		<u>26,249</u>		<u>26,249</u>	
Total U.S. Department of Education		<u>308,106</u>		<u>315,895</u>	
Total Federal Assistance		<u>\$ 477,066</u>	<u>\$ 25,678</u>	<u>\$ 484,855</u>	<u>\$ 25,678</u>

See accompanying notes to the schedule of federal awards receipts and expenditures.

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – PASS THROUGH FUNDS

The School District was awarded federal program allocations to be administered on their behalf by the Shelby County Educational Service Center. For 2015, the School District's allocation was as follows:

- Special Education_Preschool Grants – CFDA#84.173 \$1,667

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The District transferred the following amounts from 2014 to 2015 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2014 to 2015</u>
Title I Grants to Local Educational Agencies	84.010	\$ 5,517
Title I Grants – Neglected Institution	84.010	710



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*

Hardin-Houston Local School District
Shelby County
5300 Houston Road
Houston, Ohio 45333

To the Board of Education

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hardin-Houston Local School District, Shelby County, (the School District) as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 3, 2017, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 2015-001 to be a material weakness.

Compliance and Other Matters

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

February 3, 2017



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

Hardin-Houston Local School District
Shelby County
5300 Houston Road
Houston, Ohio 45333

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Hardin-Houston Local School District's (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Hardin-Houston Local School District's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Hardin-Houston 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, 2015.

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State
Columbus, Ohio

February 3, 2017

**HARDIN-HOUSTON LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under §.510(a)?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: School Breakfast Program CFDA #10.553 and National School Lunch Program CFDA #10.555 Special Education Grants to States CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2015-001

Material Weakness – Accuracy of Financial Reporting

Transactions were posted to the accounting records and annual reports; however, not all transactions were posted to the correct line item accounts.

The following errors were identified in the annual financial statements for 2015:

- In 2015, the Permanent Improvement Fund should be classified as a major fund. The financial statements included the revenue, expenditures and fund balance of the Permanent Improvement Fund in Other Governmental Funds. On the Statement of Cash Receipts, Disbursements, and Changes in Fund Balances, Other Governmental Funds were overstated and adjusted by the following amounts:
 - Receipts:
 - Income Taxes: \$255,193
 - Interest: 188
 - Transfer In: 364,448
 - Disbursements:
 - Instruction – Regular: 64,781
 - Support Services – Instructional Staff: 25,251
 - Support Services: - Fiscal: 3,828
 - Support Services: - Operation of Non-Instructional Services: 157,022
 - Support Services: - Pupil Transportation: 85,177
 - Fund Balances:
 - Beginning Fund Balance: 441,450
 - Ending Fund Balance: 725,220

- The Statement of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual Comparison contained an error in the Fund Balance at the Beginning of the Year for 2015. The Fund Balance at the Beginning of the year was understated by \$24 and Prior Year Encumbrances Appropriated was overstated by \$24. This error was adjusted so the prior year ending balance agrees to the 2015 beginning balance.

- In 2015, General Revenue - Grant and Entitlement Not Restricted to Specific Programs on the Statement of Activities was overstated by \$520,073 for Special Education grant money from the state. \$488,242 of the \$520,073 should have been recorded as Operating Grant and Contributions -Instruction - Special and \$31,831 should have been recorded as Operating Grant and Contributions -Support Services-Pupil Transportation.

Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB 54 par. 16 and GASB cod. 1800.176) - *Fund Balance Reporting* establishes fund balance classifications that stipulate use of fund balances based on the extent to which a government is required to observe constraints imposed upon the use of the resources reported in governmental funds and for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The following errors were noted as a result of the School District not properly implementing GASB Statement No 54:

**FINDING NUMBER 2015-001
(Continued)**

- In 2015, a portion of the General Fund balance was reclassified from unassigned to assigned in the amount of \$289,999 to properly reflect 2016 appropriations made that exceeded 2016 estimated receipts per GASB 54 guidance.

The above items have been adjusted to the School District's financial statements.

Financial statement reporting errors inhibit the users' understanding of the financial position at fiscal year-end and the activity during the year.

Procedures and controls should be in place to help prevent and detect errors and provide meaningful information to the users of the School District's financial statements. Prior to submitting the annual compilation to the Auditor of State, the School District's Treasurer should review the compilation to identify and correct reporting errors. Resources such as those found on the Auditor of State web site and others pertaining to financial reporting should be utilized when recording financial transactions and reviewing the annual financial statements.

Official's Response: We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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HARDIN-HOUSTON LOCAL SCHOOL DISTRICT

SHELBY 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
MAY 18, 2017**