



Dave Yost • Auditor of State

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, as of June 30, 2013, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 7, 2014

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Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The discussion and analysis of Highland Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2013 were as follows:

- Net position decreased overall \$1,134,720, or 2 percent.
- General revenues were \$14,763,667, or 83 percent of total revenues, and reflect the School District's continued dependence on property taxes, income taxes, and unrestricted state entitlements.
- The contract agreement with the Highland Education Association (the teacher's union) was negotiated for a three-year term which will expire in July 2016. The contract with the non-teaching staff was negotiated for a three-year period and will expire in June 2015.

Using the Basic Financial Statements

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

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

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

Reporting the School District as a Whole

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

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

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

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. Highland Local School District has four major funds, the General Fund, the Bond Retirement Fund, the Permanent Improvement Fund, and the Ohio School Facilities Commission Fund.

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2013 and fiscal year 2012:

Table 1 Net Position			
	2013	2012	Change
<u>Assets:</u>			
Current and Other Assets	\$15,062,475	\$16,440,083	(\$1,377,608)
Capital Assets, Net	58,133,826	58,886,599	(752,773)
Total Assets	73,196,301	75,326,682	(2,130,381)
			(continued)

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 1 Net Position (continued)			
	2013	2012	Change
<u>Liabilities:</u>			
Current and Other Liabilities	\$2,192,385	\$3,221,394	\$1,029,009
Long-Term Liabilities	16,119,853	16,203,943	84,090
Total Liabilities	18,312,238	19,425,337	1,113,099
<u>Deferred Inflows of Resources</u>	3,545,354	3,427,916	(117,438)
<u>Net Position:</u>			
Net Investment in Capital Assets	43,754,227	44,533,680	(779,453)
Restricted	3,135,194	3,705,560	(570,366)
Unrestricted	4,449,288	4,234,189	215,099
Total Net Position	\$51,338,709	\$52,473,429	(\$1,134,720)

Although the overall change in net position was not significant (2 percent), there were a couple changes of note reflected in the above table. Current and other assets decreased \$1.4 million (primarily cash and cash equivalents) due to construction and renovation of the stadium and payment of final amounts to contractors for the School District's building project. This is also reflected in the decrease in current and other liabilities as well as the decrease in restricted net position. The decrease in net capital assets and the investment in capital assets is due to annual depreciation (in excess of capital asset additions).

Table 2 reflects the changes in net position for fiscal year 2013 and fiscal year 2012.

Table 2
Changes in Net Position

	Governmental Activities		
	2013	2012	Change
<u>Revenues:</u>			
<u>Program Revenues</u>			
Charges for Services	\$854,294	\$619,135	\$235,159
Operating Grants and Contributions	2,241,256	2,663,114	(421,858)
Total Program Revenues	3,095,550	3,282,249	(186,699)

(continued)

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 2
Changes in Net Position
(continued)

	Governmental Activities		
	2013	2012	Change
Revenues: (continued)			
General Revenues			
Property Taxes Levied for General Purposes	\$3,469,931	\$3,526,706	(\$56,775)
Property Taxes Levied for Classroom Facilities Purposes	70,023	70,590	(567)
Property Taxes Levied for Debt Service Purposes	803,557	816,713	(13,156)
Property Taxes Levied for Permanent Improvement Purposes	109,575	111,373	(1,798)
Income Taxes Levied for General Purposes	1,006,356	977,664	28,692
Grants and Entitlements	8,897,911	8,889,059	8,852
Interest	20,796	10,032	10,764
Gifts and Donations	1,028	4,982	(3,954)
Miscellaneous	384,490	495,108	(110,618)
Total General Revenues	<u>14,763,667</u>	<u>14,902,227</u>	<u>(138,560)</u>
Total Revenues	<u>17,859,217</u>	<u>18,184,476</u>	<u>(325,259)</u>
<u>Expenses:</u>			
Instruction:			
Regular	7,778,458	8,176,045	397,587
Special	2,635,944	2,432,907	(203,037)
Vocational	229,103	115,692	(113,411)
Support Services:			
Pupils	498,738	856,383	357,645
Instructional Staff	752,985	818,703	65,718
Board of Education	193,779	234,264	40,485
Administration	1,130,745	1,039,898	(90,847)
Fiscal	447,431	457,670	10,239
Operation and Maintenance of Plant	1,632,359	1,678,625	46,266
Pupil Transportation	1,440,560	1,413,876	(26,684)
Central	367	1,053	686
Non-Instructional Services	834,525	774,011	(60,514)
Extracurricular Activities	396,581	379,556	(17,025)
Interest and Fiscal Charges	1,022,362	823,698	(198,664)
Total Expenses	<u>18,993,937</u>	<u>19,202,381</u>	<u>208,444</u>
Decrease in Net Position	<u>(1,134,720)</u>	<u>(1,017,905)</u>	<u>(116,815)</u>
Net Position at Beginning of Year	<u>52,473,429</u>	<u>53,491,334</u>	<u>(1,017,905)</u>
Net Position at End of Year	<u>\$51,338,709</u>	<u>\$52,473,429</u>	<u>(\$1,134,720)</u>

There was a decrease in program revenues from the prior fiscal year (6 percent decrease) primarily due to the expiration of grant resources received from the federal government for school counseling. However, charges for services increased for special education related charges.

Total general revenues remained very comparable to fiscal year 2012.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Overall expenses decreased slightly from the prior fiscal year (1 percent). Program expenses for instruction alone represent 56 percent of total expenses. When combined with the support services related to instruction, such as pupils, instructional staff, operation and maintenance, and pupil transportation, 79 percent of all School District expenses are related to the primary function of delivering education and maintaining facilities.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Instruction:				
Regular	\$7,778,458	\$8,176,045	\$7,521,919	\$7,968,983
Special	2,635,944	2,432,907	764,406	772,962
Vocational	229,103	115,692	162,691	50,795
Support Services:				
Pupils	498,738	856,383	498,738	418,501
Instructional Staff	752,985	818,703	752,985	818,703
Board of Education	193,779	234,264	193,779	234,264
Administration	1,130,745	1,039,898	1,130,745	1,039,898
Fiscal	447,431	457,670	447,431	457,670
Operation and Maintenance of Plant	1,632,359	1,678,625	1,632,359	1,678,625
Pupil Transportation	1,440,560	1,413,876	1,440,560	1,413,876
Central	367	1,053	367	1,053
Non-Instructional Services	834,525	774,011	53,583	(15,304)
Extracurricular Activities	396,581	379,556	276,462	256,408
Interest and Fiscal Charges	1,022,362	823,698	1,022,362	823,698
Total Expenses	<u>\$18,993,937</u>	<u>\$19,202,381</u>	<u>\$15,898,387</u>	<u>\$15,920,132</u>

Program revenues provided for 16 percent of the costs of services during fiscal year 2013 (a 1 percent decrease from the prior fiscal year). Traditional support from federal title grants provided for much of the program revenues for the School District. General revenues such as local property taxes, income taxes, and unrestricted State entitlements (primarily State Foundation funding) provided for the remaining 84 percent of all program costs during the fiscal year.

The non-instructional services program which includes grants, food subsidies, and cafeteria sales was almost fully funded by program revenues in fiscal year 2013. Revenues from extracurricular activities, including athletic events, provided for 30 percent of the costs of these activities.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund represents the main operating fund for the day-in day-out operations of the School District. During fiscal year 2013, fund balance in the General Fund increased \$428,942 (14 percent). The School District received more in special education excess costs (tuition and fees revenue) and shared costs (charges for services revenue) as well as an increase in income tax revenue. Expenditures increased almost 4 percent from the prior fiscal year with modest increases in most programs.

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

The Permanent Improvement capital projects fund decreased \$60,396 (4 percent). The School District purchased two buses in 2013.

The Ohio School Facilities Commission capital projects fund accounts for resources received from the State portion of the construction and renovation project. The decrease in fund balance represents spending on remaining miscellaneous items from the construction project.

General Fund Budgeting Highlights

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

Capital Assets and Debt Administration

Capital Assets

At June 30, 2013, the School District had \$58,133,826 invested in capital assets (net of accumulated depreciation). Additions for fiscal year 2013 included construction and renovations to the stadium, various equipment acquisitions, and two new buses. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At fiscal year end, the School District had general obligation bonds outstanding, in the amount of \$15,242,884, for school construction. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 16 to the basic financial statements.

Highland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Current Issues

This is a very exciting time for the Highland community now that new classroom facilities have been completed including building a new high school, renovating the former high school into a middle school, and renovating the middle school/central elementary into one large elementary school. The Ohio School Facilities Commission has been a great partner with the School District building project.

The Highland Local School District is located in southern Morrow County and includes a small portion of northeastern Delaware County (Porter Township). The area is primarily rural farming and the tax base is primarily residential. Interstate 71 is within easy access to the School District residents and is an easy commute for many traveling to Columbus. The School District's enrollment continues to grow steadily, and is now serving approximately 1,900 students.

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

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

Contacting the School District's Financial Management

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

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Highland Local School District
Statement of Net Position
June 30, 2013

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$8,884,528
Accounts Receivable	35,906
Accrued Interest Receivable	5,465
Intergovernmental Receivable	501,916
Income Taxes Receivable	416,986
Prepaid Items	10,736
Inventory Held for Resale	28,898
Materials and Supplies Inventory	66,440
Property Taxes Receivable	5,111,600
Nondepreciable Capital Assets	1,417,954
Depreciable Capital Assets, Net	56,715,872
Total Assets	73,196,301
 <u>Liabilities:</u>	
Accounts Payable	70,273
Contracts Payable	1,666
Accrued Wages and Benefits Payable	1,585,458
Matured Compensated Absences Payable	16,600
Intergovernmental Payable	411,991
Accrued Interest Payable	62,180
Retainage Payable	44,217
Long-Term Liabilities:	
Due Within One Year	237,352
Due in More Than One Year	15,882,501
Total Liabilities	18,312,238
 <u>Deferred Inflows of Resources:</u>	
Property Taxes	3,545,354
 <u>Net Position:</u>	
Net Investment in Capital Assets	43,754,227
Restricted For:	
Debt Service	66,440
Capital Projects	1,722,465
Classroom Facilities	620,184
Other Purposes	726,105
Unrestricted	4,449,288
Total Net Position	\$51,338,709

See Accompanying Notes to Basic Financial Statements

Highland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<u>Governmental Activities:</u>			
Instruction:			
Regular	\$7,778,458	\$75,035	\$181,504
Special	2,635,944	341,465	1,530,073
Vocational	229,103	1,995	64,417
Support Services:			
Pupils	498,738	0	0
Instructional Staff	752,985	0	0
Board of Education	193,779	0	0
Administration	1,130,745	0	0
Fiscal	447,431	0	0
Operation and Maintenance of Plant	1,632,359	0	0
Pupil Transportation	1,440,560	0	0
Central	367	0	0
Non-Instructional Services	834,525	315,680	465,262
Extracurricular Activities	396,581	120,119	0
Interest and Fiscal Charges	1,022,362	0	0
Total Governmental Activities	\$18,993,937	\$854,294	\$2,241,256

General Revenues:

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

Change in Net Position

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

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position

Governmental
Activities

(\$7,521,919)
(764,406)
(162,691)

(498,738)
(752,985)
(193,779)
(1,130,745)
(447,431)
(1,632,359)
(1,440,560)
(367)

(53,583)
(276,462)
(1,022,362)

(15,898,387)

3,469,931
70,023
803,557
109,575
1,006,356
8,897,911
20,796
1,028
384,490

14,763,667

(1,134,720)

52,473,429
\$51,338,709

Highland Local School District
Balance Sheet
Governmental Funds
June 30, 2013

	General	Bond Retirement	Permanent Improvement	Ohio School Facilities Commission
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$4,141,898	\$412,824	\$1,498,473	\$1,525,843
Accounts Receivable	35,906	0	0	0
Accrued Interest Receivable	280	0	0	5,185
Interfund Receivable	2,620	0	0	0
Intergovernmental Receivable	36,286	0	0	0
Income Taxes Receivable	416,986	0	0	0
Prepaid Items	10,736	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	63,973	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	2,170	0	0	0
Property Taxes Receivable	3,982,772	922,590	126,238	0
Total Assets	\$8,693,627	\$1,335,414	\$1,624,711	\$1,531,028
<u>Liabilities</u>				
Accounts Payable	\$52,609	\$0	\$0	\$0
Contracts Payable	0	0	0	0
Accrued Wages and Benefits Payable	1,407,458	0	0	0
Matured Compensated Absences Payable	16,600	0	0	0
Interfund Payable	0	0	0	0
Intergovernmental Payable	392,921	0	0	0
Retainage Payable	0	0	0	0
Total Liabilities	1,869,588	0	0	0
<u>Deferred Inflows of Resources</u>				
Property Taxes	2,762,447	639,989	87,702	0
Unavailable Revenue	481,005	92,949	12,675	0
Total Deferred Inflows of Resources	3,243,452	732,938	100,377	0
<u>Fund Balances:</u>				
Nonspendable	74,709	0	0	0
Restricted	2,170	602,476	0	1,531,028
Committed	0	0	1,524,334	0
Assigned	63,705	0	0	0
Unassigned (Deficit)	3,440,003	0	0	0
Total Fund Balances	3,580,587	602,476	1,524,334	1,531,028
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$8,693,627	\$1,335,414	\$1,624,711	\$1,531,028

See Accompanying Notes to the Basic Financial Statements

<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$1,303,320	\$8,882,358
0	35,906
0	5,465
0	2,620
465,630	501,916
0	416,986
0	10,736
28,898	28,898
2,467	66,440
0	2,170
80,000	5,111,600
<u>\$1,880,315</u>	<u>\$15,065,095</u>
\$17,664	\$70,273
1,666	1,666
178,000	1,585,458
0	16,600
2,620	2,620
19,070	411,991
44,217	44,217
<u>263,237</u>	<u>2,132,825</u>
55,216	3,545,354
371,853	958,482
<u>427,069</u>	<u>4,503,836</u>
2,467	77,176
1,212,325	3,347,999
0	1,524,334
0	63,705
(24,783)	3,415,220
<u>1,190,009</u>	<u>8,428,434</u>
<u>\$1,880,315</u>	<u>\$15,065,095</u>

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Highland Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2013

Total Governmental Fund Balances	\$8,428,434
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Amounts reported for governmental activities on the statement of net position are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	58,133,826
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Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

Accounts Receivable	19,377	
Intergovernmental Receivable	363,662	
Income Taxes Receivable	60,257	
Delinquent Property Taxes Receivable	515,186	
		958,482

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Accrued Interest Payable	(62,180)	
General Obligation Bonds Payable	(15,242,884)	
Compensated Absences Payable	(876,969)	
		(16,182,033)

Net Position of Governmental Activities	<u>\$51,338,709</u>
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See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Bond Retirement	Permanent Improvement	Ohio School Facilities Commission
<u>Revenues:</u>				
Property Taxes	\$3,511,223	\$813,120	\$110,879	\$0
Income Taxes	1,005,411	0	0	0
Intergovernmental	9,516,952	117,846	16,070	0
Interest	9,917	0	0	10,841
Tuition and Fees	377,962	0	0	0
Extracurricular Activities	12,832	0	0	0
Charges for Services	31,451	0	0	0
Gifts and Donations	1,028	0	0	0
Miscellaneous	375,934	0	0	0
Total Revenues	<u>14,842,710</u>	<u>930,966</u>	<u>126,949</u>	<u>10,841</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,596,165	0	0	0
Special	1,812,846	0	0	0
Vocational	178,045	0	0	0
Support Services:				
Pupils	483,715	0	0	0
Instructional Staff	606,600	0	0	0
Board of Education	193,779	0	0	0
Administration	1,099,138	0	0	0
Fiscal	412,715	27,182	3,707	0
Operation and Maintenance of Plant	1,528,582	0	183,638	0
Pupil Transportation	1,308,121	0	0	0
Central	0	0	0	0
Non-Instructional Services	0	0	0	0
Extracurricular Activities	182,112	0	0	0
Capital Outlay	0	0	0	106,717
Debt Service:				
Principal Retirement	17,584	155,000	0	0
Interest and Fiscal Charges	526	748,869	0	0
Total Expenditures	<u>14,419,928</u>	<u>931,051</u>	<u>187,345</u>	<u>106,717</u>
Excess of Revenues Over (Under) Expenditures	422,782	(85)	(60,396)	(95,876)
<u>Other Financing Source:</u>				
Sale of Capital Assets	<u>6,160</u>	<u>0</u>	<u>0</u>	<u>0</u>
Changes in Fund Balances	428,942	(85)	(60,396)	(95,876)
Fund Balances at Beginning of Year	<u>3,151,645</u>	<u>602,561</u>	<u>1,584,730</u>	<u>1,626,904</u>
Fund Balances at End of Year	<u><u>\$3,580,587</u></u>	<u><u>\$602,476</u></u>	<u><u>\$1,524,334</u></u>	<u><u>\$1,531,028</u></u>

See Accompanying Notes to the Basic Financial Statements

<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$70,800	\$4,506,022
0	1,005,411
1,444,921	11,095,789
38	20,796
0	377,962
120,119	132,951
315,680	347,131
0	1,028
36,299	412,233
1,987,857	17,899,323
104,409	6,700,574
783,084	2,595,930
0	178,045
0	483,715
48,005	654,605
0	193,779
0	1,099,138
2,350	445,954
30,339	1,742,559
0	1,308,121
367	367
688,370	688,370
114,755	296,867
714,156	820,873
0	172,584
0	749,395
2,485,835	18,130,876
(497,978)	(231,553)
0	6,160
(497,978)	(225,393)
1,687,987	8,653,827
\$1,190,009	\$8,428,434

Highland Local School District
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2013

Changes in Fund Balances - Total Governmental Funds (\$225,393)

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

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

Capital Outlay - Nondepreciable Capital Assets	689,967	
Capital Outlay - Depreciable Capital Assets	209,102	
Depreciation	<u>(1,649,800)</u>	(750,731)

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

Proceeds from Sale of Capital Assets	(6,160)	
Gain on Disposal of Capital Assets	<u>4,118</u>	(2,042)

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

Delinquent Property Taxes	(52,936)	
Income Taxes	945	
Intergovernmental	30,546	
Tuition and Fees	9,082	
Miscellaneous	<u>(31,861)</u>	(44,224)

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

General Obligation Bonds	155,000	
Capital Leases	<u>17,584</u>	172,584

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

Accrued Interest Payable	(196,420)	
Annual Accretion on Capital Appreciation Bonds	(80,170)	
Amortization of Premium	6,015	
Amortization of Discount	<u>(2,392)</u>	(272,967)

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

(11,947)

Change in Net Position of Governmental Activities (\$1,134,720)

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Over (Under)
<u>Revenues:</u>				
Property Taxes	\$3,490,000	\$3,490,000	\$3,525,135	\$35,135
Income Taxes	960,000	960,000	1,003,380	43,380
Intergovernmental	9,644,000	9,370,000	9,516,952	146,952
Interest	5,000	5,000	9,844	4,844
Tuition and Fees	34,000	360,500	377,554	17,054
Extracurricular Activities	10,000	12,500	12,832	332
Charges for Services	21,790	21,790	31,451	9,661
Gifts and Donations	5,500	5,500	1,028	(4,472)
Miscellaneous	89,040	63,040	91,816	28,776
Total Revenues	<u>14,259,330</u>	<u>14,288,330</u>	<u>14,569,992</u>	<u>281,662</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,988,952	6,999,453	6,738,569	260,884
Special	1,953,168	1,953,168	1,912,063	41,105
Vocational	162,750	162,750	164,118	(1,368)
Support Services:				
Pupils	480,555	480,555	477,403	3,152
Instructional Staff	676,135	676,135	649,098	27,037
Board of Education	233,950	233,950	206,933	27,017
Administration	1,140,006	1,112,506	1,118,919	(6,413)
Fiscal	419,500	419,500	399,130	20,370
Operation and Maintenance of Plant	1,398,814	1,398,814	1,513,566	(114,752)
Pupil Transportation	1,275,800	1,275,800	1,299,930	(24,130)
Extracurricular Activities	218,000	218,000	183,760	34,240
Total Expenditures	<u>14,947,630</u>	<u>14,930,631</u>	<u>14,663,489</u>	<u>267,142</u>
Excess of Revenues				
Under Expenditures	<u>(688,300)</u>	<u>(642,301)</u>	<u>(93,497)</u>	<u>548,804</u>
<u>Other Financing Sources:</u>				
Sale of Capital Assets	3,948	3,948	6,160	2,212
Refund of Prior Year Expenditures	150,000	250,000	269,572	19,572
Total Other Financing Sources	<u>153,948</u>	<u>253,948</u>	<u>275,732</u>	<u>21,784</u>
Changes in Fund Balance	(534,352)	(388,353)	182,235	570,588
Fund Balance at Beginning of Year	3,875,724	3,875,724	3,875,724	0
Prior Year Encumbrances Appropriated	36,295	36,295	36,295	0
Fund Balance at End of Year	<u>\$3,377,667</u>	<u>\$3,523,666</u>	<u>\$4,094,254</u>	<u>\$570,588</u>

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$5,430	\$31,464
<u>Liabilities:</u>		
Undistributed Assets	0	\$972
Due to Students	0	30,492
Total Liabilities	0	\$31,464
<u>Net Position:</u>		
Held in Trust for Scholarships	\$5,430	

See Accompanying Notes to the Basic Financial Statements

Highland Local School District
Statement of Change in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2013

<u>Additions:</u>	
Gifts and Donations	\$6,361
 <u>Deductions:</u>	
Non-Instructional Services	7,870
	<hr/>
Change in Net Position	(1,509)
Net Position at Beginning of Year	6,939
Net Position at End of Year	<hr/> <hr/> <u>\$5,430</u>

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1960. The School District serves an area of approximately one hundred forty-four square miles and is located in Morrow and Delaware Counties. The School District is the 270th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by eighty-five classified employees, one hundred twenty certified teaching personnel, and ten administrative employees who provide services to 1,865 students and other community members. The School District currently operates an elementary school, a middle school, and a high school.

Reporting Entity

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

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

The School District participates in three jointly governed organizations, an insurance pool, and is associated with a related organization. These organizations are the Tri-Rivers Educational Computer Association, Tri-Rivers Joint Vocational School, Metropolitan Educational Council, Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Selover Public Library. These organizations are presented in Notes 19, 20, and 21 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

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

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

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

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

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

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

Fiduciary Funds

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

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. The School District did not report any deferred outflows of resources for fiscal year 2013.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources consists of property taxes and unavailable revenue. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes intergovernmental revenue including grants, income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

Expenses/Expenditures

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2013, the School District invested in nonnegotiable certificates of deposit, which are reported at cost.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2013 was \$9,917, which includes \$3,989 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

Note 2 - Summary of Significant Accounting Policies (continued)

H. Inventory

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

I. Restricted Assets

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

J. Capital Assets

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

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

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

Description	Useful Lives
Land Improvements	10 - 40 years
Buildings and Building Improvements	20 - 100 years
Furniture, Fixtures, and Equipment	5 - 40 years
Vehicles	5 - 15 years

K. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net position.

L. Compensated Absences

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Unamortized Premiums and Discounts

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

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

O. Net Position

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

P. Fund Balance

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

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

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

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

Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance 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, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

Q. Estimates

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

Note 3 - Change in Accounting Principals

For fiscal year 2013, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements”, Statement No. 61, “The Financial Reporting Entity: Omnibus”, “ Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements”, Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”, Statement No. 65, “Items Previously Reported as Assets and Liabilities”, and Statement No. 66, “Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62”.

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements which are a type of public-public or public-private partnership. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and the financial reporting entity display and disclosure requirements. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 62 incorporates into GASB’s authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related note disclosures. These changes were incorporated in the School District’s fiscal year 2013 financial statements; however, there was no effect on beginning net position and/or fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets or liabilities as inflows of resources (revenues) or outflows of resources (expenses or expenditures). These changes were incorporated in the School District’s fiscal year 2013 financial statements; however, there was no effect on beginning net position and/or fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and, thereby, enhance the usefulness of the financial reports. The implementation of this statement did not result in any change to the School District’s financial statements.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 4 - Accountability

At June 30, 2013, the Race to the Top, Title VI-B, Title I, and Title II-A special revenue funds had deficit fund balances, in the amount of \$2,236, \$6,192 \$2,804 and \$13,551, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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

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

Changes in Fund Balance	
GAAP Basis	\$428,942
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2012, Received in Cash FY 2013	1,225,632
Accrued FY 2013, Not Yet Received in Cash	(1,228,778)
Expenditure Accruals:	
Accrued FY 2012, Paid in Cash FY 2013	(2,058,151)
Accrued FY 2013, Not Yet Paid in Cash	1,869,588
Prepaid Items	(6,857)
Materials and Supplies Inventory	4,293
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(52,434)
Budget Basis	\$182,235

Note 6 - Deposits and Investments

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

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

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

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

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 6 - Deposits and Investments (continued)

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.

Note 7 - Receivables

Receivables at June 30, 2013, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except income taxes and property taxes, are expected to be collected within one year. Income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Fund	
General Fund	
Bureau of Workers' Compensation	\$36,286
Other Governmental Funds	
Food Service	968
Race to the Top	86,649
Title VI-B	95,000
Title I	250,263
Title II-A	32,750
Total Other Governmental Funds	465,630
Total Intergovernmental Receivables	\$501,916

Note 8 - Income Taxes

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 9 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Morrow and Delaware Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of June 30, 2013, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance at June 30, 2013, was \$818,954 in the General Fund, \$16,593 in the Classroom Facilities special revenue fund, \$189,652 in the Bond Retirement debt service fund, and \$25,861 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2012, was \$830,367 in the General Fund, \$16,397 in the Classroom Facilities special revenue fund, \$192,296 in the Bond Retirement debt service fund, and \$26,223 in the Permanent Improvement capital projects fund.

For fiscal year 2012, the amount of the delinquent personal property tax settlement made by the counties was \$2,499 in the General Fund, \$66 in the Classroom Facilities special revenue fund, \$579 in the Bond Retirement debt service fund, and \$79 in the Permanent Improvement capital projects fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on an accrual basis. On a modified accrual basis, the revenue has been recorded as deferred inflows of resources - unavailable revenue.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 9 - Property Taxes (continued)

The assessed values upon which fiscal year 2013 taxes were collected are:

	2012 Second- Half Collections		2013 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$184,052,950	90.57%	\$184,765,190	90.64%
Industrial/Commercial	14,402,760	7.09	14,010,870	6.87
Public Utility	4,757,310	2.34	5,068,970	2.49
Total Assessed Value	<u>\$203,213,020</u>	<u>100.00%</u>	<u>\$203,845,030</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$24.50		\$24.50	

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance at 6/30/12	Additions	Reductions	Balance at 6/30/13
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$623,382	\$0	\$0	\$623,382
Construction in Progress	104,605	689,967	0	794,572
Total Nondepreciable Capital Assets	<u>727,987</u>	<u>689,967</u>	<u>0</u>	<u>1,417,954</u>
Depreciable Capital Assets				
Land Improvements	329,318	5,047	0	334,365
Buildings and Building Improvements	59,645,748	0	0	59,645,748
Furniture, Fixtures, and Equipment	1,138,522	42,571	(9,800)	1,171,293
Vehicles	1,728,472	161,484	(86,731)	1,803,225
Total Depreciable Capital Assets	<u>62,842,060</u>	<u>209,102</u>	<u>(96,531)</u>	<u>62,954,631</u>
Less Accumulated Depreciation				
Land Improvements	(120,663)	(14,360)	0	(135,023)
Buildings and Building Improvements	(3,029,268)	(1,439,094)	0	(4,468,362)
Furniture, Fixtures, and Equipment	(324,275)	(76,246)	7,758	(392,763)
Vehicles	(1,209,242)	(120,100)	86,731	(1,242,611)
Total Accumulated Depreciation	<u>(4,683,448)</u>	<u>(1,649,800)</u>	<u>94,489</u>	<u>(6,238,759)</u>
Depreciable Capital Assets, Net	<u>58,158,612</u>	<u>(1,440,698)</u>	<u>(2,042)</u>	<u>56,715,872</u>
Governmental Activities Capital Assets, Net	<u>\$58,886,599</u>	<u>(\$750,731)</u>	<u>(\$2,042)</u>	<u>\$58,133,826</u>

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 10 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$955,996
Special	50,146
Vocational	51,058
Support Services:	
Pupils	13,885
Instructional Staff	87,798
Administration	34,069
Fiscal	4,322
Operation and Maintenance of Plant	68,016
Pupil Transportation	137,291
Non-Instructional Services	143,055
Extracurricular Activities	104,164
Total Depreciation Expense	\$1,649,800

Note 11 - Interfund

At June 30, 2013, the General Fund had an interfund receivable, in the amount of \$2,620, from other governmental funds for short-term loans made to those funds. All amounts are expected to be repaid within one year.

Note 12 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the School District contracted for the following insurance coverage.

Coverage purchased from Argonaut Insurance Group is as follows:

Buildings and Contents - replacement cost	\$46,717,875
Automobile Liability	1,000,000
General School District Liability	
Per Occurrence	1,000,000
Total per Year	3,000,000
Excess School District Liability	
Per Occurrence	2,000,000
Total per Year	2,000,000

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

Note 12 - Risk Management (continued)

For fiscal year 2013, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 13 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Note 13 - Defined Benefit Pension Plans (continued)

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased 1 percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$852,172 and \$37,238 for the fiscal year ended June 30, 2013, \$842,641 and \$32,322 for the fiscal year ended June 30, 2012, and \$870,439 and \$30,992 for the fiscal year ended June 30, 2011. For fiscal year 2013, 84 percent has been contributed for both the DBP and the CP, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

The contribution to STRS Ohio for the DCP for fiscal year 2013 was \$18,541 made by the School District and \$13,243 made by the plan members. In addition, member contributions of \$26,599 were made for fiscal year 2013 for the defined contribution portion of the CP.

B. School Employees Retirement System

Plan Description - The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employers is established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.1 percent. The remaining .9 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011, was \$282,391, \$273,547, and \$262,025, respectively. For fiscal year 2013, 50 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2013, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

A. State Teachers Retirement System

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

Funding Policy - Chapter 3307 of the Ohio Revised Code authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The School District's contribution for health care for the fiscal years ended June 30, 2013, 2012, and 2011 was \$69,842, \$68,342, and \$70,723, respectively. For fiscal year 2013, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

B. School Employees Retirement System

Plan Description - The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, .16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2013, this amount was \$20,525. For fiscal year 2013, the School District paid \$37,457 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

Note 14 - Postemployment Benefits (continued)

The School District's contribution for health care for the fiscal years ended June 30, 2013, 2012, and 2011 was \$3,449, \$11,847, and \$31,727, respectively. For fiscal year 2013, 50 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2013, this actuarially required allocation was .74 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 was \$15,952, \$16,154, and \$16,862, respectively. For fiscal year 2013, 50 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Note 15 - Other Employee Benefits

A. Compensated Absences

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

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

B. Health Care Benefits

The School District offers life insurance and accidental death and dismemberment insurance to all employees through School Claims Service. The School District offers employee medical/surgical benefits through Anthem Blue Cross/Blue Shield and Steelworkers Health and Welfare Fund. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is offered to all employees through Metropolitan Insurance.

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 16 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2013 were as follows:

	Balance at 6/30/12	Additions	Reductions	Balance at 6/30/13	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
General Obligation Bonds					
School Facilities Construction and Improvement Bonds FY 2009					
Serial Bonds 3-4.5%	\$1,730,000	\$0	\$155,000	\$1,575,000	\$175,000
Term Bonds 5.25-5.50%	12,665,000	0	0	12,665,000	0
Capital Appreciation Bonds 13.12%	365,000	0	0	365,000	0
Accretion on Capital Appreciation Bonds	216,310	80,170	0	296,480	0
Bond Premium	572,820	0	6,015	566,805	0
Bond Discount	(227,793)	0	(2,392)	(225,401)	0
Total General Obligation Bonds	15,321,337	80,170	158,623	15,242,884	175,000
Compensated Absences Payable	865,022	91,050	79,103	876,969	62,352
Capital Leases Payable	17,584	0	17,584	0	0
Total Governmental Activities Long-Term Obligations	\$16,203,943	\$171,220	\$255,310	\$16,119,853	\$237,352

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

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 16 - Long-Term Obligations (continued)

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

Year	Amount
2023	\$520,000
2024	635,000
2025	685,000
2026	740,000
2027	790,000

The remaining principal, in the amount of \$830,000, will be paid at stated maturity on December 1, 2028.

The bonds maturing on December 1, 2033, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2029	\$875,000
2030	920,000
2031	970,000
2032	1,025,000

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

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

Year	Amount
2034	\$1,135,000
2035	1,200,000

The remaining principal, in the amount of \$1,265,000, will be paid at stated maturity on December 1, 2036.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2020 through 2023. The maturity amount of the bonds is \$1,840,000. For fiscal year 2013, \$80,170 was accreted on the capital appreciation bonds for a total value of \$661,480 at fiscal year end.

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 16 - Long-Term Obligations (continued)

The School District's overall debt margin was \$3,887,321 with an unvoted debt margin of \$198,776 at June 30, 2013.

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2013, were as follows:

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2014	\$175,000	\$742,875
2015	195,000	735,938
2016	250,000	727,282
2017	275,000	716,438
2018	300,000	703,844
2019-2023	745,000	4,883,520
2024-2028	3,370,000	2,991,519
2029-2033	4,620,000	1,925,268
2034-2037	4,675,000	531,041
Totals	\$14,605,000	\$13,957,725

Note 17 - Fund Balance

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

Fund Balance	General	Bond Retirement	Permanent Improvement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
Nonspendable for:						
Materials and Supplies						
Inventory	\$63,973	\$0	\$0	\$0	\$2,467	\$66,440
Prepaid Items	10,736	0	0	0	0	10,736
Total Nonspendable	74,709	0	0	0	2,467	77,176

(continued)

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 17 - Fund Balance (continued)

Fund Balance	General	Bond Retirement	Permanent Improvement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
Restricted for:						
Athletics and Music	\$0	\$0	\$0	\$0	\$50,208	\$50,208
Building Construction	0	0	0	1,531,028	191,437	1,722,465
Bus Purchase	2,170	0	0	0	0	2,170
Debt Retirement	0	602,476	0	0	0	602,476
Education Management Information Systems	0	0	0	0	3,844	3,844
Food Service Operations	0	0	0	0	349,443	349,443
Network Connectivity	0	0	0	0	5,400	5,400
School Facilities Maintenance	0	0	0	0	611,993	611,993
Total Restricted	2,170	602,476	0	1,531,028	1,212,325	3,347,999
Committed for:						
Building Construction	0	0	1,524,334	0	0	1,524,334
Assigned for:						
Educational Activities	21,970	0	0	0	0	21,970
Extracurricular Activities	1,095	0	0	0	0	1,095
Unpaid Obligations	40,640	0	0	0	0	40,640
Total Assigned	63,705	0	0	0	0	63,705
Unassigned (Deficit)	3,440,003	0	0	0	(24,783)	3,415,220
Total Fund Balance	\$3,580,587	\$602,476	\$1,524,334	1,531,028	\$1,190,009	\$8,428,434

Note 18 - Set Asides

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

Highland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 18 - Set Asides (continued)

The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2013.

	Capital Improvements
Balance June 30, 2012	\$0
Current Year Set Aside Requirement	321,532
Current Year Offsets	(321,532)
Balance June 30, 2013	\$0

Note 19 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Athens, Crawford, Delaware, Erie, Franklin, Knox, Licking, Lorain, Marion, Morrow, Muskingum, Union, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2013, the School District paid \$243,675 to TRECA for various services. Financial information can be obtained from TRECA, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

B. Tri-Rivers Joint Vocational School

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

C. Metropolitan Educational Council

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

Note 20 - Insurance Pool

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

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

Note 21 - Related Organization

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

Note 22 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2013.

B. Litigation

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

Note 23 - Subsequent Event

On October 10, 2013, the School District entered into a capital lease for buses, in the amount of \$248,145. Lease payments will begin on November 10, 2013, and will continue for a three year period.

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 56,707	\$ 56,707
Cash Assistance:			
Breakfast Program	10.553	84,193	84,193
National School Lunch Program	10.555	315,070	315,070
Total Child Nutrition Cluster		<u>455,970</u>	<u>455,970</u>
Food Service Expansion Grant	10.579	600	-
Total U.S. Department of Agriculture		<u>456,570</u>	<u>455,970</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	453,794	458,968
ARRA - Title I Grants to Local Educational Agencies	84.389	4,950	4,950
Total Title I Grant Cluster		<u>458,744</u>	<u>463,918</u>
Special Education Grants to States	84.027	227,128	250,871
Improving Teacher Quality	84.367	77,842	78,357
ARRA - Race to the Top	84.395	65,889	48,557
Total U.S. Department of Education		<u>829,603</u>	<u>841,703</u>
Total		<u>\$ 1,286,173</u>	<u>\$ 1,297,673</u>

The accompanying notes are an integral part of this schedule.

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

Highland Local School District
Morrow County
6506 State Route 229
P.O. Box 98
Sparta, Ohio 43350-0098

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Local School District, Morrow County, Ohio, (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 7, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 7, 2014



Dave Yost • Auditor of State

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

Highland Local School District
Morrow County
6506 State Route 229
P.O. Box 98
Sparta, Ohio 43350-0098

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Highland Local School District's, Morrow County, Ohio, (the District's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Highland Local School District's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and 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 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 District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Highland Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with 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 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 a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Dave Yost
Auditor of State
Columbus, Ohio

March 7, 2014

**HIGHLAND LOCAL SCHOOL DISTRICT
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 and #84.389 – Title I Part A Cluster CFDA#84.027 – Special Education (IDEA)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Highland Local School District, Morrow County, Ohio, (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on June 26, 2013 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State
Columbus, Ohio

March 7, 2014

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Dave Yost • Auditor of State

HIGHLAND LOCAL SCHOOL DISTRICT

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 1, 2014