



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

CHILLICOTHE CITY SCHOOL DISTRICT  
ROSS COUNTY

SINGLE AUDIT

For the Year Ended June 30, 2015  
Fiscal Year Audited Under GAGAS: 2015





# Dave Yost • Auditor of State

Board of Education  
Chillicothe City School District  
475 Yoctangee Pathway  
Chillicothe, Ohio 45601

We have reviewed the *Independent Auditor's Report* of the Chillicothe City School District, Ross County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

*State ex rel. McClure v. Hagerman*, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

On July 3, 2014 the District issued check #598609 to Debra Blewitt, Executive Secretary, for \$3,005.60. When Ms. Blewitt's 2014-2015 contract was entered into the payroll system, a data entry error caused Ms. Blewitt's check for July 3 to be more than the \$1,596.40 she should have received per the Board of Education approved pay rate.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Debra Blewitt, Executive Secretary, in the amount of \$1,409.20 in favor of Chillicothe City School District's General Fund.

Debra Blewitt repaid the Chillicothe City School District in full through two payroll deductions. One deduction in the amount of \$704.60 was deducted from her September 20, 2015 pay check. The other deduction in the amount of \$704.60 was deducted from her October 5, 2015 pay check. The total of the two deductions was \$1,409.20.

Board of Education  
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Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Chillicothe City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail on the "y".

Dave Yost  
Auditor of State

March 9, 2016

**CHILlicothe CITY SCHOOL DISTRICT  
ROSS COUNTY**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## Independent Auditor's Report

Chillicothe City School District  
Ross County  
475 Yoctangee Parkway  
Chillicothe, Ohio 45601

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 discretely presented component unit and remaining fund information of the Chillicothe City School District, Ross County, Ohio (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no 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 discretely presented component unit and remaining fund information of the Chillicothe City School District, Ross County, Ohio, as of June 30, 2015, 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.

### **Emphasis of Matter**

As discussed in Note 21 to the financial statements, during the year ended June 30, 2015, the School District adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Supplementary and Other Information*

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

The Schedule of Federal Award Receipts and Expenditures (the schedule) 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 December 18, 2015, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Piketon, Ohio  
December 18, 2015

**Chillicothe City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*(Unaudited)*

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Chillicothe City School District's (School District) discussion and analysis of the annual financial report provides a review of the financial performance for the fiscal year ended June 30, 2015. 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 the basic financial statements to enhance their understanding of the School District's financial performance.

**FINANCIAL HIGHLIGHTS**

- The School District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2015 by \$26,327,978.
- The School District's net position of governmental activities increased \$2,205,489.
- General revenues accounted for \$31,905,031 in revenue or 79.60 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for \$8,176,817 or 20.40 percent of total revenues of \$40,081,848.
- The School District had \$37,876,359 in expenses related to governmental activities; only \$8,176,817 of these expenses were offset by program specific charges for services and sales, operating grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$31,905,031 were adequate to provide for these programs.

**USING THIS ANNUAL FINANCIAL REPORT**

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Chillicothe City School District's financial situation as a whole and also give a detailed view of the School District's financial activities.

The statement of net position and statement of activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the School District, the General Fund and Debt Service Fund are the major funds.

**REPORTING THE SCHOOL DISTRICT AS A WHOLE**

***Statement of Net Position and Statement of Activities***

The analysis of the School District as a whole begins on page 6. These reports provide information that will help the reader to determine whether the School District is financially improving or declining as a result of the year's financial activities. These statements include all assets, liabilities, and deferred inflows/outflows of resources using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position and change in net position. This change informs the reader whether the School District's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the School District's financial well-being. Some of these factors

**Chillicothe City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*(Unaudited)*

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include the School District's tax base, current property tax laws in Ohio restricting revenue growth, the condition of capital assets, and required educational programs.

In the statement of net position and the statement of activities, the School District has only one kind of activity.

- **Governmental Activities.** All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities, and debt service.

## **REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS**

### ***Fund Financial Statements***

The analysis of the School District's funds begins on page 10. Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the School District is meeting legal responsibilities for use of grants. The Chillicothe City School District's major funds are the General and Debt Service Funds.

**Governmental Funds.** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily 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 to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

**Reporting the School District's Fiduciary Responsibilities.** The School District acts in trustee capacity as an agent for individuals. These activities are reported in agency funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**Notes to the Basic Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Chillicothe City School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)

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**THE SCHOOL DISTRICT AS A WHOLE**

As stated previously, the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2015 compared to 2014.

Table 1  
Net Position

	Governmental Activities	
	2015	2014*
Assets:		
Current and Other Assets	\$26,181,991	\$23,544,676
Capital Assets, Net	32,374,342	34,110,299
Total Assets	58,556,333	57,654,975
Deferred Outflows of Resources	2,417,428	2,033,107
Liabilities:		
Current and Other Liabilities	3,649,038	3,268,484
Long-Term Liabilities	64,606,311	71,417,240
Total Liabilities	68,255,349	74,685,724
Deferred Inflows of Resources	19,046,390	13,535,825
Net Position:		
Net Investment in Capital Assets	3,313,950	4,306,417
Restricted	3,858,796	3,414,782
Unrestricted (Deficit)	(33,500,724)	(36,254,666)
Total Net Position	(\$26,327,978)	(\$28,533,467)

\*As restated. See note 21 of the notes to the basic financial statements.

The increase of \$2,637,315 in current and other assets is primarily due to an increase in cash and cash equivalents, due primarily to an increase in levy collections. The decrease of \$1,735,957 in capital assets, net is due to current year depreciation expense and deletions exceeding current year additions. Deferred outflows of resources increased \$384,321 due to an increase in employer contributions made subsequent to the net pension liability measurement date.

Current and other liabilities increased \$380,554 due to an increase in intergovernmental payable and matured compensated absences payable. The decrease of \$6,810,929 in long-term liabilities is due primarily to a decrease in the net pension liability balance and the current year reduction of debt, which was partially offset by an increase in accretion on capital appreciation bonds. Deferred inflows of resources increased \$5,510,565 due to the recognition of deferred inflows related to pension plans.

**Chillicothe City School District**  
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*(Unaudited)*

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During 2015, the School District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of these financial statements will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service,
2. Minus plan assets available to pay these benefits.

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

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

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

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(Unaudited)

As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014 from \$7,782,483 to (\$28,533,467).

Table 2 shows the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

Table 2  
Change in Net Position

	Governmental Activities	
	2015	2014
Revenues		
Program Revenues:		
Charges for Services and Sales	\$2,132,619	\$2,066,072
Operating Grants and Contributions	6,044,198	5,882,572
Total Program Revenues	8,176,817	7,948,644
General Revenues		
Property Taxes	15,178,199	13,944,613
Grants and Entitlements not Restricted to Specific Programs	16,367,769	14,977,126
Gifts and Donations not Restricted to Specific Programs	32,829	700
Investment Earnings	34,028	15,644
Insurance Recoveries	0	6,818
Miscellaneous	292,206	368,620
Total General Revenues	31,905,031	29,313,521
Total Revenues	40,081,848	37,262,165
Program Expenses		
Instruction		
Regular	14,545,964	14,143,368
Special	4,764,490	4,423,884
Vocational	6,113	6,682
Other	4,698,085	3,934,147
Support Services		
Pupils	1,640,195	1,208,926
Instructional Staff	1,035,834	770,279
Board of Education	55,201	61,466
Administration	2,094,931	2,117,611
Fiscal & Business	810,670	864,635
Operation and Maintenance of Plant	2,986,704	2,224,303
Pupil Transportation	1,152,182	1,156,250
Central	258,996	244,853
Operation of Non-Instructional Services	2,072,709	1,609,452
Extracurricular Activities	583,169	523,397
Interest & Fiscal Charges	1,171,116	1,215,216
Total Expenses	37,876,359	34,504,469
Change in Net Position	2,205,489	2,757,696
Net Position at Beginning of Year-As Restated	(28,533,467)	N/A
Net Position at End of Year	(\$26,327,978)	(\$28,533,467)

**Chillicothe City School District**  
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Property taxes increased \$1,233,586 related to an increase in the collection of tax levy funds. Unrestricted grants and entitlements increased \$1,390,643 due to an increase in State reimbursements related to tax levies and in State Foundation funding.

Other instruction increased \$763,938 due to an increase in open enrollment and community school remittances from the State Foundation. Pupils and instructional staff expenses increased \$431,269 and \$265,555, respectively, due to increases in personnel service costs. Operation and maintenance of plant increased \$762,401 due to increased operating costs. Operation of non-instructional services increased \$463,257 due to increased operating costs and supplies.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$2,033,107 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expenses of \$1,550,150. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$37,876,359
Pension expense under GASB 68	(1,550,150)
2015 contractually required contribution	<u>2,113,271</u>
Adjusted 2015 program expenses	38,439,480
Total 2014 program expenses under GASB 27	<u>34,504,469</u>
Increase in program expenses not related to pension	<u><u>\$3,935,011</u></u>

**Governmental Activities**

Property taxes comprised 37.87 percent of revenue for governmental activities of the School District for fiscal year 2015 and represents one of the largest sources of revenue. Property tax growth has been limited in the past by H.B. 920 reduction factors, which restrict inflationary growth on existing property resulting from re-appraisal activity. Ross County completed a re-appraisal in calendar year 2013. However, due to H.B. 920 the School District received only a modest increase in tax revenue due to new construction and inside millage which is not subject to H.B. 920. Property tax growth has been negatively impacted by H.B. 66 which eliminates the tangible personal property tax. While, the School District was fully reimbursed by the State through fiscal year 2013, the reimbursement is being phased out beginning in fiscal year 2014. The School District also passed a levy in 2013 and collections on that levy began in 2014.

Grants and entitlements not restricted comprised 40.84 percent of revenue for governmental activities during 2015.

As indicated by governmental program expenses, instruction is emphasized. Total instruction comprised 63.40 percent of governmental program expenses with support services comprising 26.49 percent of governmental expenses.

The statement of activities shows the cost of program services and the charges for services and sales, grants and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2015 as compared to 2014. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Chillicothe City School District**  
*Management's Discussion and Analysis*  
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*(Unaudited)*

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Table 3  
 Total and Net Cost of Program Services  
 Governmental Activities

	2015		2014	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$24,014,652	\$18,936,475	\$22,508,081	\$17,531,477
Support Services	10,034,713	8,948,121	8,648,323	7,471,112
Operation of Non-Instructional Services	2,072,709	175,794	1,609,452	(72,240)
Extracurricular Activities	583,169	468,036	523,397	410,260
Interest and Fiscal Charges	1,171,116	1,171,116	1,215,216	1,215,216
<b>Total Expenses</b>	<b>\$37,876,359</b>	<b>\$29,699,542</b>	<b>\$34,504,469</b>	<b>\$26,555,825</b>

**THE SCHOOL DISTRICT'S FUNDS**

Information about the School District's major governmental funds begins on page 15. All of the School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$39,815,443 and expenditures of \$37,439,432. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund increased in the amount of \$1,928,444. The increase in fund balance is primarily due to an increase of property tax revenues and Foundation funding.

The fund balance of the Debt Service Fund increased in the amount of \$224,386. The increase in fund balance is primarily due to an increase of property tax revenues and a reduction in expenditures.

**General Fund Budgeting Highlights**

The School District's budget is adopted on a fund basis. Before the budget is adopted, the Board of Education reviews the detailed work papers of each object within the General Fund and then adopts the budget on a fund basis.

During 2015, there were revisions to the General Fund budget. The School District's actual revenues and other financing sources were relatively consistent with budgeted amounts. Actual expenditures and other financing uses were also consistent with the final budget.

The School District's ending unobligated fund balance was \$6,205,240.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

Table 4 shows the fiscal year 2015 balances compared to 2014.

**Chillicothe City School District**  
*Management's Discussion and Analysis*  
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*(Unaudited)*

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Table 4  
 Capital Assets  
 (Net of Accumulated Depreciation)

	2015	2014
Land and Improvements	\$1,160,189	\$1,229,223
Buildings and Improvements	28,884,143	30,498,303
Furniture and Equipment	1,890,399	2,047,760
Vehicles	439,611	335,013
Totals	\$32,374,342	\$34,110,299

The net decrease in capital assets from the prior year resulted from depreciation and deletions exceeding current year additions of buildings and improvements, furniture and equipment, and vehicles.

Detailed information regarding capital asset activity is included in the notes to the basic financial statements (note 8).

**Debt**

At June 30, 2015, the School District had \$29,609,398 in bonds and capital leases outstanding with \$1,249,828 due within one year. Table 5 summarizes the bonds, notes, and capital leases outstanding:

Table 5  
 Outstanding Debt at Year End

	2015	2014
2005 Construction Bond	\$1,845,000	\$2,731,415
2007 General Obligation Refunding Bonds	27,317,816	27,507,013
2009 General Obligation Bond	280,000	320,000
2012 Capital Lease	166,582	271,685
Totals	\$29,609,398	\$30,830,113

The School District's overall legal debt margin was \$7,378,589 and the unvoted debt margin was \$380,741 at June 30, 2015.

Detailed information regarding long-term and other debt is included in the notes to the basic financial statements (notes 13 and 14).

**Current Financial Related Activities**

Chillicothe City School District has struggled financially for several years. This is mainly due to the tangible personal property tax loss. The tax loss hit the School District hard. We passed a 5 year emergency operating levy in May of 2013. The new emergency operating levy and the increase in the state funding of 7 ½% has helped stabilize the School District's finances.

**Chillicothe City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*  
*(Unaudited)*

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The School District still struggles with open enrollment but the trend is starting to reduce due to the number of students coming into our School District. The outlook of the School District has stability.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the School District's financial condition and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Deborah Lawwell, Treasurer, Chillicothe City School District, 475 Yoctangee Parkway, Chillicothe, Ohio 45601.

**Chillicothe City School District**  
*Statement of Net Position*  
*As of June 30, 2015*

	Governmental Activities	Component Unit Chillicothe Education Foundation
<b>Assets:</b>		
Equity in Pooled Cash and Investments	\$10,064,553	\$0
Cash and Cash Equivalents in Segregated Accounts	2,563	0
Cash and Investments	0	48,020
Accounts Receivable	61,070	0
Intergovernmental Receivable	763,944	0
Taxes Receivable	15,289,861	0
Restricted Assets:		
Cash and Investments	0	665,554
Non-Depreciable Capital Assets	515,510	0
Depreciable Capital Assets, net	31,858,832	0
<i>Total Assets</i>	58,556,333	713,574
<b>Deferred Outflows of Resources:</b>		
Pension	2,417,428	0
<b>Liabilities:</b>		
Accounts Payable	54,967	0
Scholarships Payable	0	53,000
Accrued Wages and Benefits	2,764,524	0
Intergovernmental Payable	537,931	0
Accrued Interest Payable	91,424	0
Matured Compensated Absences Payable	200,192	0
Long-Term Liabilities:		
Due Within One Year	1,474,294	0
Due in More Than One Year	63,132,017	0
<i>Total Liabilities</i>	68,255,349	53,000
<b>Deferred Inflows of Resources:</b>		
Property Taxes not Levied to Finance Current Year Operations	13,149,599	0
Pension	5,896,791	0
<i>Total Deferred Inflows of Resources</i>	19,046,390	0
<b>Net Position:</b>		
Net Investment in Capital Assets	3,313,950	0
Restricted for Debt Service	1,293,305	0
Restricted for Capital Outlay	1,624,472	0
Restricted for Other Purposes	447,903	0
Restricted for Permanent Fund:		
Non-Expendable	450,000	0
Expendable	43,116	0
Restricted for Scholarships:		
Non-Expendable	0	500,000
Expendable	0	112,554
Unrestricted (Deficit)	(33,500,724)	48,020
<i>Total Net Position</i>	(\$26,327,978)	\$660,574

The notes to the basic financial statements are an integral part of this statement

**Chillicothe City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2015

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	Component
		Charges for Services and Sales	Operating Grants and Contributions		Unit
					Chillicothe Education Foundation
<b>Governmental Activities</b>					
Instruction:					
Regular	\$14,545,964	\$875,747	\$243,453	(\$13,426,764)	\$0
Special	4,764,490	168,819	3,491,118	(1,104,553)	0
Vocational	6,113	371	13,430	7,688	0
Other	4,698,085	285,239	0	(4,412,846)	0
Support Services:					
Pupils	1,640,195	88,874	160,154	(1,391,167)	0
Instructional Staff	1,035,834	59,691	228,883	(747,260)	0
Board of Education	55,201	3,352	0	(51,849)	0
Administration	2,094,931	159,632	89,687	(1,845,612)	0
Fiscal	808,418	43,634	22,597	(742,187)	0
Business	2,252	67	0	(2,185)	0
Operation and Maintenance of Plant	2,986,704	146,018	0	(2,840,686)	0
Pupil Transportation	1,152,182	63,225	5,049	(1,083,908)	0
Central	258,996	15,729	0	(243,267)	0
Operation of Non-Instructional Services	2,072,709	116,692	1,780,223	(175,794)	0
Extracurricular Activities	583,169	105,529	9,604	(468,036)	0
Interest and Fiscal Charges	1,171,116	0	0	(1,171,116)	0
<i>Total Governmental Activities</i>	<u>\$37,876,359</u>	<u>\$2,132,619</u>	<u>\$6,044,198</u>	(29,699,542)	0
<b>Component Unit</b>					
Chillicothe Education Foundation	<u>\$57,739</u>	<u>\$0</u>	<u>\$19,950</u>		(37,789)

**General Revenues:**

Property Taxes Levied for:		
General Purposes	12,371,493	0
Debt Service	2,031,425	0
Capital Projects	775,281	0
Grants and Entitlements not Restricted for Specific Programs	16,367,769	0
Gifts and Donations not Restricted to Specific Programs	32,829	0
Investment Earnings	34,028	59,495
Miscellaneous	292,206	0
<i>Total General Revenues</i>	<u>31,905,031</u>	<u>59,495</u>
<i>Change in Net Position</i>	2,205,489	21,706
<i>Net Position Beginning of Year-Restated</i>	<u>(28,533,467)</u>	<u>638,868</u>
<i>Net Position End of Year</i>	<u>(\$26,327,978)</u>	<u>\$660,574</u>

The notes to the basic financial statements are an integral part of this statement

**Chillicothe City School District**  
*Balance Sheet*  
*Governmental Funds*  
*As of June 30, 2015*

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Investments	\$6,338,361	\$1,006,891	\$2,719,300	\$10,064,552
Cash and Cash Equivalents in Segregated Accounts	0	0	2,563	2,563
Accounts Receivable	38,807	0	22,263	61,070
Interfund Receivable	42,064	0	0	42,064
Intergovernmental Receivable	218,552	0	545,392	763,944
Taxes Receivable	12,456,863	2,013,286	819,712	15,289,861
<i>Total Assets</i>	<u>\$19,094,647</u>	<u>\$3,020,177</u>	<u>\$4,109,230</u>	<u>\$26,224,054</u>
<b>Liabilities:</b>				
Accounts Payable	\$28,659	\$0	\$26,308	\$54,967
Accrued Wages and Benefits	2,373,660	0	390,864	2,764,524
Interfund Payable	0	0	42,064	42,064
Intergovernmental Payable	437,172	0	100,759	537,931
Matured Compensated Absences Payable	200,192	0	0	200,192
<i>Total Liabilities</i>	3,039,683	0	559,995	3,599,678
<b>Deferred Inflows of Resources:</b>				
Property Taxes Not Levied for Current Year Operations	10,719,720	1,726,872	703,007	13,149,599
Unavailable Revenue	633,727	71,965	399,490	1,105,182
<i>Total Deferred Inflows of Resources</i>	11,353,447	1,798,837	1,102,497	14,254,781
<b>Fund Balances:</b>				
Nonspendable	0	0	450,000	450,000
Restricted	0	1,221,340	1,664,018	2,885,358
Committed	52,685	0	500,000	552,685
Assigned	58,724	0	0	58,724
Unassigned (Deficit)	4,590,108	0	(167,280)	4,422,828
<i>Total Fund Balances</i>	<u>4,701,517</u>	<u>1,221,340</u>	<u>2,446,738</u>	<u>8,369,595</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$19,094,647</u>	<u>\$3,020,177</u>	<u>\$4,109,230</u>	<u>\$26,224,054</u>

The notes to the basic financial statements are an integral part of this statement.

**Chillicothe City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 As of June 30, 2015*

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**Total Governmental Fund Balances** \$8,369,595

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 32,374,342

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Taxes	526,791	
Customer Sales and Service	240	
Tuition and Fees	15,503	
Miscellaneous	13,150	
Intergovernmental	549,499	
Total		1,105,183

The net pension liability is not due and payable in the current period. Therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows-Pension	2,417,428	
Deferred Inflows-Pension	(5,896,791)	
Net Pension Liability	(32,273,468)	
Total		(35,752,831)

Long-term liabilities, including bonds and related liabilities, capital leases, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Accrued Interest Payable	(91,424)	
Compensated Absences	(2,723,445)	
Capital Leases	(166,582)	
Refunding Bonds	(25,730,000)	
Construction Bonds	(1,845,000)	
Energy Conservation Bonds	(280,000)	
Capital Appreciation Bonds	(869,006)	
Premiums on Bonds	(718,810)	
Total		(32,424,267)

**Net Position of Governmental Activities** (\$26,327,978)

The notes to the basic financial statements are an integral part of this statement

**Chillicothe City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2015*

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property and Other Local Taxes	\$12,311,472	\$2,022,979	\$771,808	\$15,106,259
Intergovernmental	17,057,994	525,757	4,598,372	22,182,123
Interest	20,478	0	4,948	25,426
Increase in Fair Value of Investments	8,602	0	0	8,602
Tuition and Fees	1,701,533	0	136,240	1,837,773
Rent	15,420	0	0	15,420
Extracurricular Activities	55,225	0	76,096	131,321
Gifts and Donations	41,689	0	35,218	76,907
Customer Sales and Services	37,037	0	114,865	151,902
Miscellaneous	246,462	0	33,248	279,710
<i>Total Revenues</i>	<u>31,495,912</u>	<u>2,548,736</u>	<u>5,770,795</u>	<u>39,815,443</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	12,589,623	0	340,840	12,930,463
Special	2,819,697	0	1,885,566	4,705,263
Vocational	6,113	0	0	6,113
Other	4,696,894	0	0	4,696,894
Support Services:				
Pupils	1,456,197	0	164,536	1,620,733
Instructional Staff	778,381	0	243,850	1,022,231
Board of Education	55,782	0	0	55,782
Administration	1,999,144	0	129,340	2,128,484
Fiscal	713,441	46,920	42,521	802,882
Business	1,104	0	0	1,104
Operation and Maintenance of Plant	2,416,848	0	540,406	2,957,254
Pupil Transportation	1,048,540	0	5,079	1,053,619
Central	257,772	0	0	257,772
Operation of Non-Instructional Services	7,885	0	1,785,249	1,793,134
Extracurricular Activities	467,538	0	111,414	578,952
Capital Outlay	137,537	0	298,813	436,350
Debt Service:				
Principal	105,103	1,120,000	0	1,225,103
Interest and Fiscal Charges	9,869	1,157,430	0	1,167,299
<i>Total Expenditures</i>	<u>29,567,468</u>	<u>2,324,350</u>	<u>5,547,614</u>	<u>37,439,432</u>
<i>Net Change in Fund Balances</i>	1,928,444	224,386	223,181	2,376,011
<i>Fund Balances at Beginning of Year</i>	<u>2,773,073</u>	<u>996,954</u>	<u>2,223,557</u>	<u>5,993,584</u>
<i>Fund Balances at End of Year</i>	<u><u>\$4,701,517</u></u>	<u><u>\$1,221,340</u></u>	<u><u>\$2,446,738</u></u>	<u><u>\$8,369,595</u></u>

The notes to the basic financial statements are an integral part of this statement.

**Chillicothe City School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2015*

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**Net Change in Fund Balances - Total Governmental Funds** \$2,376,011

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

Governmental funds report capital outlays as expenditures. However, in 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 asset additions in the current period.

Capital Asset Additions	436,350	
Current Year Depreciation	(1,579,369)	
Total		(1,143,019)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets.

Loss on Disposal of Capital Assets	(592,938)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes	71,940	
Customer Sales and Service	(916)	
Tuition and Fees	(2,881)	
Miscellaneous	12,496	
Intergovernmental	185,766	
Total		266,405

Contractually required contributions are reported as expenditures in governmental funds. However, the statement of net position reports these amounts as deferred outflows.	2,113,271
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(1,550,150)
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Repayment of bond principal and lease obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net position and does not result in an expense in the statement of activities.	1,225,103
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Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net position.

Premium	158,389	
Annual Accretion of Capital Appreciation Bonds	(162,776)	
Total		(4,387)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Increase in Compensated Absences	(485,377)	
Decrease in Interest Payable	570	
Total		(484,807)

<b>Net Change in Net Position of Governmental Activities</b>	<b><u><u>\$2,205,489</u></u></b>
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The notes to the basic financial statements are an integral part of this statement

**Chillicothe City School District**  
*Statement of Revenues, Expenditures and Change  
in Fund Balance - Budget and Actual  
(Non-GAAP Budgetary Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2015*

	Budgeted Amounts		Actual	Variance with Final Budget: Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property and Other Local Taxes	\$12,125,864	\$12,119,970	\$12,119,970	\$0
Intergovernmental	16,922,916	17,044,274	17,044,274	0
Interest	12,500	18,896	20,478	1,582
Tuition and Fees	1,287,625	1,697,126	1,697,126	0
Rent	10,000	14,620	15,420	800
Extracurricular Activities	15,000	16,907	16,907	0
Gifts and Donations	875	32,829	32,829	0
Customer Sales and Services	11,250	37,628	37,628	0
Miscellaneous	63,570	204,492	204,500	8
<i>Total Revenues</i>	30,449,600	31,186,742	31,189,132	2,390
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	28,553,169	12,455,616	12,455,616	0
Special	40,000	2,818,811	2,818,811	0
Vocational	0	6,113	6,113	0
Other	0	4,697,426	4,697,426	0
Support Services:				
Pupils	24,771	1,463,126	1,463,126	0
Instructional Staff	23,037	785,736	785,736	0
Board of Education	0	56,026	56,026	0
Administration	23,633	1,974,010	1,974,010	0
Fiscal	12,473	733,417	733,417	0
Business	0	1,052	1,052	0
Operation and Maintenance of Plant	404,122	2,455,294	2,455,294	0
Pupil Transportation	150,000	1,058,344	1,058,344	0
Central	28,500	257,163	257,163	0
Operation of Non-Instructional Services	0	7,885	7,885	0
Extracurricular Activities	0	475,989	475,989	0
Capital Outlay	0	12,117	12,117	0
<i>Total Expenditures</i>	29,259,705	29,258,125	29,258,125	0
<i>Excess of Revenues Over Expenditures</i>	1,189,895	1,928,617	1,931,007	2,390
<b>Other Financing Sources (Uses):</b>				
Advances In	61,233	61,233	61,233	0
Advances Out	0	(42,063)	(42,063)	0
<i>Total Other Financing Sources (Uses)</i>	61,233	19,170	19,170	0
<i>Net Change in Fund Balance</i>	1,251,128	1,947,787	1,950,177	2,390
<i>Fund Balance at Beginning of Year</i>	4,205,784	4,205,784	4,205,784	0
<i>Prior Year Encumbrances Appropriated</i>	49,279	49,279	49,279	0
<i>Fund Balance at End of Year</i>	\$5,506,191	\$6,202,850	\$6,205,240	\$2,390

The notes to the basic financial statements are an integral part of this statement

**Chillicothe City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*As of June 30, 2015*

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	<u>Agency</u>
<b>Assets:</b>	
Current Assets:	
Equity in Pooled Cash and Investments	\$115,030
<i>Total Assets</i>	\$115,030
<b>Liabilities:</b>	
Current Liabilities:	
Due to Students	\$101,775
Undistributed Monies	13,255
<i>Total Liabilities</i>	\$115,030

The notes to the basic financial statements are an integral part of this statement.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**NOTE 1-DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

**Description of the School District**

Chillicothe City 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 statute and/or federal guidelines.

The School District was established in 1849 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 22 square miles. It is located in Ross County, and includes all of the Village of Massieville, the City of Chillicothe and a portion of Scioto Township. It is staffed by 142 non-certified employees, 180 certificated full-time teaching personnel and 14 administrative employees who provide services to 2,916 students and other community members. The School District currently operates six instructional buildings, one administrative building, one maintenance building and one bus garage.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that 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 Chillicothe City 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; (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. Based on the foregoing, the School District's reporting entity includes one component unit, the Chillicothe Education Foundation.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

- Parent Teacher Organizations
- Ross-Pike Educational Service District
- City of Chillicothe

The following activities are included within the reporting entity:

*Bishop Flaget Parochial School*-Within the School District boundaries, the Bishop Flaget Parochial School, a school that provides classes for kindergarten through eighth grade, is operated through the Columbus Catholic Diocese. Current State legislation provides funding to this parochial school. Monies are received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activity of these State monies is reflected in a special revenue fund for financial reporting purposes.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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The School District is associated with two organizations, which are defined as jointly governed organizations. These organizations are the South Central Ohio Computer Association Council of Governments and Pickaway-Ross Career and Technology Center. These organizations are presented in note 16 of the notes to the basic financial statements.

*Discretely Presented Component Unit*

The component unit column in the government-wide financial statements includes the financial data of the School District's component unit. It is reported in a separate column to emphasize that it is legally separate from the School District. The Chillicothe Education Foundation is a legally separate, non-profit community organization whose purpose is exclusively educational and charitable and whose charge is to secure and distribute contributions from individuals, corporations and foundations for the benefit of the students in the Chillicothe City School District. Financial information can be obtained from Jon Wilson, Treasurer, 213 South Paint Street, Chillicothe, Ohio 45601.

**NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources.

**Basis of Presentation-Fund Accounting**

*Fund Accounting*

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific School District functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

*Governmental Funds*

Governmental funds are those through which most governmental functions typically 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 purpose 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, liabilities, and deferred inflows/outflows of resources is reported as fund balance. The following are the School District's major governmental funds:

***General Fund***

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

***Debt Service Fund***

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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*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. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The School District has one agency fund used to account for student activity programs and another which is used as a clearing account for the School District's Workers' Compensation activity.

**Basis of Presentation and Measurement Focus**

*Basis of Presentation*

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

*Government-wide Financial Statements*

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of governmental activities of the School District at 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. 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 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 fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

*Measurement Focus*

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, liabilities, and deferred inflows/outflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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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, current liabilities, and certain deferred inflows/outflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 statements for governmental funds.

*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. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows of resources, and in the presentation of expenses versus expenditures.

*Revenues – Exchange and Non-exchange 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that 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 60 days of year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See note 6). 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 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 a 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 to be both measurable and available at year-end: property taxes available as an advance, investment earnings, tuition and fees, and grants.

*Deferred Inflows/Outflows of Resources*

In addition to assets, the statement of net position and balance sheet report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. This item is further explained in note 10.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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In addition to liabilities, the statement of net position and balance sheet report a separate section for deferred inflows of resources. Deferred inflows of resources represents 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 included property taxes, pension, and unavailable revenue. Property taxes for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows of resources on the statement of net position and governmental fund balance sheet. Unavailable revenue is reported only on the governmental fund balance sheet and represents grants and entitlements not received within the available period and delinquent property taxes due at June 30, 2015. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and is further explained in note 10.

*Expenses/Expenditures*

On the accrual basis of accounting, 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, except for (1) principal and interest on general long-term debt obligations, which is recorded when due and (2) the costs of accumulated unpaid vacation, personal leave and sick leave, which are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**Budgets**

*Budgetary Process*

All funds, other than the agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education as the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level of each fund.

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

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

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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*Encumbrances*

Encumbrance accounting is utilized by the School District for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a restriction, commitment, or assignment on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements encumbrances outstanding at fiscal year-end are reported as restricted, committed, or assigned fund balance for subsequent year expenditures for governmental funds. Encumbrances are reported as part of expenditures on a non-GAAP budgetary basis.

**Cash and Cash Equivalents**

To improve cash management, all 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. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

During fiscal year 2015, investments were limited to money market accounts, Certificates of Deposit, and U.S. Government Agency securities. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2015 amounted to \$20,478. Nonmajor Governmental Funds earned interest revenue of \$4,948. The School District also experienced an increase in fair value of investments of \$8,602, which was recognized in the General Fund.

**Capital Assets and Depreciation**

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,500. The School District does not possess any infrastructure.

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.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-20 years
Building and Improvements	20-50 years
Furniture and Equipment	5-20 years
Vehicles	4-8 years

**Interfund Assets/Liabilities**

Short-term interfund loans are classified as "interfund receivables" and "interfund payables". These amounts are eliminated in the governmental activities column of the statement of net position.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Compensated Absences**

Vacation and personal leave 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 that the School District will compensate its employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as 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 employee will be paid.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in 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. Bonds are recognized as a liability on the government-wide financial statements when due.

**Interfund Transactions**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements. Interfund transfers within governmental activities are eliminated in the statement of activities. The School District reported no transfers for the year ended June 30, 2015.

**Net Position**

Net position represents the difference between assets, liabilities, and deferred inflows/outflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes represents balances in special revenue funds for grants received which are restricted as to use by grantors.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

The government-wide statement of net position reports \$3,858,796 in restricted net position, none of which is restricted by enabling legislation.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**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 the governmental funds. The classifications are as follows:

*Nonspendable* – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

*Committed* – This fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District’s Board of Education. Those committed amounts cannot be used for any other purpose unless the School District’s 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 fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by the School District’s Board of Education.

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

The School District applies restricted resources first when expenditures are 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 could be used.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Bond Premium, Discount, and Issuance Costs**

Bond premiums are deferred and amortized over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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On the governmental fund financial statements, bond issuance costs and premiums are recognized in the year paid or received.

**Deferred Loss on Refunding**

The difference between the reacquisition price (funds required to refund the old debt) of the refunding notes and the bonds and the net carrying amount of the old debt, the deferred amount (loss) on refunding, is being amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt whichever is shorter and is presented as a deferred outflow of resources on the statement of net position. The School District presented no deferred loss on refunding at June 30, 2015.

**Pensions**

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

**NOTE 3-ACCOUNTABILITY**

At June 30, 2015, the Public School Support, Public School Preschool, Miscellaneous State Grants, Title VI-B, Title I, Improving Teacher Quality, and Miscellaneous Federal Grants Nonmajor Special Revenue Funds had deficit fund balances of \$14,761, \$11,737, \$4,432, \$59,906, \$58,274, \$16,459, and \$1,711, respectively, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 4-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 and actual – (non-GAAP budgetary basis) 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 GAAP basis are that:

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 a restriction, commitment, or assignment of fund balance.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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4. As part of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. This includes the entire Rotary Fund and a portion of the Public School Support Fund.

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary bases for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$1,928,444
Revenue and Other	
Financing Sources Accruals	(176,519)
Expenditures and Other	
Financing Uses Accruals	293,436
Encumbrances	(98,975)
(Excess) Deficit of Funds Combined with General Fund for Reporting Purposes	3,791
Budget Basis	\$1,950,177

**NOTE 5-DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board 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 in 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.

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

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

#### Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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As of June 30, 2015, the School District's bank balance of \$7,372,577 was either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above.

Investments

As of June 30, 2015, the School District had the following investments and maturities.

Investment Type	Fair Value	Less than 1 Year	1-2 Years	3-5 Years
Money Market Fund	\$43,194	\$43,194	\$0	\$0
US Government Agency Securities:				
FFCB	1,601,630	0	500,317	1,101,313
FHLB	1,002,168	500,993	501,175	0
FHLMC	250,589	0	0	250,589
FNMA	500,937	0	0	500,937
Total	<u>\$3,398,518</u>	<u>\$544,187</u>	<u>\$1,001,492</u>	<u>\$1,852,839</u>

*Interest Rate Risk.* As a means to limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District's investment policy requires that investment portfolio maturities are limited to five years or less.

*Credit Risk.* The School District's investments in US Government Agency Securities were rated AA+ by Standard & Poor's. Standard & Poor's has assigned the money market fund an AAAM money market rating. The School District's investment policy does not address credit risk beyond the requirements of the Ohio Revised Code.

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District's securities are either insured and registered in the name of the School District or at least registered in the name of the School District. The School District has no investment policy dealing with investment custodial credit risk beyond the requirements in State statute that prohibit payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of total of each investment type held by the School District at June 30, 2015:

Investment Type	Fair Value	% of Total
Money Market Fund	\$43,194	1.27%
FFCB	1,601,630	47.13%
FHLB	1,002,168	29.49%
FHLMC	250,589	7.37%
FNMA	500,937	14.74%
Total	<u>\$3,398,518</u>	<u>100.00%</u>

Component Unit

At fiscal year end, the carrying amount of the Chillicothe Education Foundation's deposits was \$48,020 and the bank balance was \$48,020. Federal depository insurance covered all of the bank balance.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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The Chillicothe Education Foundation has no formal policy which addresses the investment risks identified above. All of the Chillicothe Education Foundation's investments were unrated.

The Chillicothe Education Foundation's investments at June 30, 2015 were as follows:

Investment Type	Fair Value	Maturity	Percentage of Portfolio
Stocks	\$108,975	<1 year	16.37%
Exchange Traded & Closed End Funds	18,169	<1 year	2.73%
Mutual Funds	538,410	<1 year	80.90%
Total	<u>\$665,554</u>		<u>100.00%</u>

**NOTE 6-PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. 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 revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected in 2015 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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

	2014 Second-Half Collections		2015 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$362,971,120	93.71%	\$355,802,470	93.45%
Public Utility	24,381,210	6.29%	24,938,620	6.55%
Total Assessed Value	<u>\$387,352,330</u>	<u>100.00%</u>	<u>\$380,741,090</u>	<u>100.00%</u>

Tax Rate per \$1,000 of Assessed Valuation	\$59.10	\$59.20
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**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes which became measurable as of June 30, 2015. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2015, was \$1,310,873 in the General Fund, \$214,449 in the Debt Service Fund and \$88,149 in the Permanent Improvement Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**NOTE 7-RECEIVABLES**

Receivables at June 30, 2015, consisted of property taxes, accounts (rent, tuition and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables is as follows:

<i>Major Fund:</i>	
General	\$218,552
<i>Nonmajor Special Revenue Funds:</i>	
Lunchroom	3,478
Public School Preschool	20,625
Title VI-B	147,426
Title I	336,514
Early Childhood Special Education	139
Improving Teacher Quality	24,550
Miscellaneous Federal Grants	12,660
<i>Total Nonmajor Funds</i>	<u>545,392</u>
<i>Total All Funds</i>	<u><u>\$763,944</u></u>

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2015

**NOTE 8-CAPITAL ASSETS**

Capital assets activity of the fiscal year ended June 30, 2015, was as follows:

	Ending Balance 6/30/14	Additions	Deletions	Ending Balance 6/30/15
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$545,010	\$0	(\$29,500)	\$515,510
Total Capital Assets, Not Being Depreciated	545,010	0	(29,500)	515,510
Capital Assets Being Depreciated				
Land Improvements	1,495,963	0	(34,604)	1,461,359
Buildings and Improvements	50,344,899	16,116	(2,572,650)	47,788,365
Furniture and Equipment	5,346,875	201,428	(289,317)	5,258,986
Vehicles	1,894,995	218,806	(48,335)	2,065,466
Total Capital Assets, Being Depreciated	59,082,732	436,350	(2,944,906)	56,574,176
Less Accumulated Depreciation				
Land Improvements	(811,750)	(37,076)	32,146	(816,680)
Buildings and Improvements	(19,846,596)	(1,109,334)	2,051,708	(18,904,222)
Furniture and Equipment	(3,299,115)	(320,647)	251,175	(3,368,587)
Vehicles	(1,559,982)	(112,312)	46,439	(1,625,855)
Total Accumulated Depreciation	(25,517,443)	(1,579,369)	2,381,468	(24,715,344)
Total Capital Assets Being Depreciated, Net	33,565,289	(1,143,019)	(563,438)	31,858,832
Governmental Activities Capital Assets, Net	\$34,110,299	(\$1,143,019)	(\$592,938)	\$32,374,342

Depreciation expense was charged to the governmental functions as follows:

Instruction:	
Regular	\$1,309,350
Special	14,833
Other	1,191
Support Services:	
Pupils	7,126
Instructional Staff	2,628
Administration	1,690
Fiscal	472
Business	1,148
Operation and Maintenance of Plant	33,911
Pupil Transportation	106,011
Operation of Non-Instrumental Services	92,213
Extracurricular Activities	8,796
Total Depreciation Expense	\$1,579,369

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2015

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**NOTE 9-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 2015, the School District contracted with Ohio Casualty Insurance/Liberty Mutual Insurance for liability, property, fleet, inland marine, and boiler and machinery insurance. Coverages provided are as follows:

<i>General Liability:</i>	
General Aggregate Limit	\$2,000,000
Each Occurrence Combined Single Limit	1,000,000
Medical Expense Limit (Any One Person)	15,000
 <i>Employee Benefit Liability (\$1,000 Deductible):</i>	
Annual Policy Aggregate Limit	3,000,000
Each Wrongful Account Limit	1,000,000
 <i>Auto Liability:</i>	
Per Accident Liability	1,000,000
 <i>Stop Gap:</i>	
Each Accident	1,000,000
Disease Each Employee	1,000,000
Disease Policy Limit	1,000,000
 <i>Property Insurance:</i>	
Building/Contents (\$2,500 Deductible)	
Including EDP, Inland Marine – Musical Instr.	72,068,283

The building and contents coverage is provided on a blanket, agreed value, replacement cost basis.

<i>Fleet Insurance:</i>	
Combined Single Limit-Each Accident	\$1,000,000
Medical Payments – Per Person (Including Extended Medical)	5,000
Uninsured and Underinsured Motorist	
Bodily Injury – Combined Single Limit – Each Accident	1,000,000
Physical Damage	Actual Cash Value, Cost of
Comprehensive (\$1,000 Deductible)	Repair, or \$50,000, which is
Collision (\$1,000 Deductible)	less

Settled claims have not exceeded this commercial coverage in any of the past three years. The School District reviewed its insurance coverages and made modifications where deemed appropriate.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The School District did not qualify for a Group Rating Plan due to prior claims. Participation in a GRP is limited to school districts that can meet the GRP's selection criteria.

The School District provides medical insurance through United Health Care, dental insurance through CoreSource, vision insurance through Vision Service Plan, and life insurance through the Metropolitan Educational Council.

**NOTE 10-DEFINED BENEFIT PENSION PLANS**

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$488,240 for fiscal year 2015. Of this amount, \$0 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

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

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

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

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

The School District's contractually required contribution to STRS was \$1,539,408 for fiscal year 2015. Of this amount \$258,336 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net			
Pension Liability	\$5,864,570	\$26,408,898	\$32,273,468
Proportion of the Net Pension			
Liability	0.115879%	0.10857377%	
Pension Expense	\$344,885	\$1,205,265	\$1,550,150

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
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At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
<i>Deferred Outflows of Resources</i>			
Differences between expected and actual experience	\$49,914	\$254,243	\$304,157
District contributions subsequent to the measurement date	528,479	1,584,792	2,113,271
<b>Total Deferred Outflows of Resources</b>	<b>\$578,393</b>	<b>\$1,839,035</b>	<b>\$2,417,428</b>
<i>Deferred Inflows of Resources</i>			
Net difference between projected and actual earnings on pension plan investments	\$951,836	\$4,885,746	\$5,837,582
Difference between District contributions and proportionate share of contributions	0	59,209	59,209
<b>Total Deferred Inflows of Resources</b>	<b>\$951,836</b>	<b>\$4,944,955</b>	<b>\$5,896,791</b>

\$2,113,271 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	(\$225,481)	(\$1,172,678)	(\$1,398,159)
2017	(225,481)	(1,172,678)	(1,398,159)
2018	(225,480)	(1,172,678)	(1,398,158)
2019	(225,480)	(1,172,678)	(1,398,158)
<b>Total</b>	<b>(\$901,922)</b>	<b>(\$4,690,712)</b>	<b>(\$5,592,634)</b>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

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

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

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

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

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

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

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2015

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$8,366,999	\$5,864,570	\$3,759,811

**Actuarial Assumptions - STRS**

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

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

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

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

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

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

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2015

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*Discount Rate* The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$37,807,217	\$26,408,898	\$16,769,756

**NOTE 11-POSTEMPLOYMENT BENEFITS**

School Employees Retirement System

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

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

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$65,318. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$95,694, \$63,526, and \$55,942, respectively. The full amount has been contributed for fiscal years 205, 2014, and 2013.

**State Teachers Retirement System**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$106,831, and \$109,581, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**NOTE 12-EMPLOYEE BENEFITS**

**Compensated Absences**

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 275 days for administrators, 266 days for certified personnel, and 266 days for classified personnel. Upon retirement, payment is made for 28 percent of accrued, but unused sick leave credit to a maximum of 70 days for administrators, and 73.5 days for certificated employees. Payment to classified employees is 40 percent of accrued sick leave up to a maximum of 220 hours, or 88 days.

**Insurance**

The School District provides medical insurance through United Health Care, dental insurance through CoreSource, vision insurance through Vision Service Plan, and life insurance through the Metropolitan Educational Council.

**Chillicothe City School District**  
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**Deferred Compensation**

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency.

**Attendance Bonus for Classified Employees**

Absences from work are counted from July 1 through June 30 each year. Classified employees may be eligible for an "Attendance Bonus" for not using days for sick or personal leave or leave without pay. This is payable the following July of the fiscal year. For fiscal year 2015, the School District did have employees that were eligible to take advantage of this benefit.

**NOTE 13-LONG-TERM OBLIGATIONS**

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

	Outstanding 6/30/14*	Additions	Deductions	Outstanding 6/30/15	Amounts Due within One Year
<i>Governmental Activities:</i>					
General Obligation Bonds:					
2005 Construction General Obligation Obligation Bonds – Serial and Term 2-5.25%	\$1,845,000	\$0	\$0	\$1,845,000	\$900,000
2005 Construction Capital Appreciation Bonds 12.274-12.306%	260,000	0	(260,000)	0	0
Accretion of Capital Appreciation Bonds Premium	587,828 38,587	52,172 0	(640,000) (38,587)	0 0	0 0
2007 Refunding Obligation Bonds – Serial and Term 3.5-4.5%	25,910,000	0	(180,000)	25,730,000	200,000
Premium	838,612	0	(119,802)	718,810	0
2007 Construction Capital Appreciation Bonds 17.7712-17.8754%	320,000	0	0	320,000	0
Accretion of Capital Appreciation Bonds	438,402	110,604	0	549,006	0
2009 School Energy Conservation Improvement Term Bonds 0%	320,000	0	(40,000)	280,000	40,000
Total General Obligation Bonds	30,558,429	162,776	(1,278,389)	29,442,816	1,140,000
Capital Leases	271,685	0	(105,103)	166,582	109,828
Compensated Absences	2,238,069	2,284,963	(1,799,587)	2,723,445	224,466
Net Pension Liability	38,349,057	0	(6,075,589)	32,273,468	0
Total Governmental Activities Long-Term Obligations	\$71,417,240	\$2,447,739	(\$9,258,668)	\$64,606,311	\$1,474,294

\*As restated. See note 21 of the basic financial statements for more information.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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2005 Construction General Obligation Bonds – On July 1, 2004, general obligation bonds were issued for the retirement of the bond anticipation notes that were used for renovating and constructing school buildings in the amount of \$34,000,000. The bond issue included serial and term bonds (shown as general obligation bonds in the table above), and capital appreciation bonds, in the amounts of \$20,045,000, \$13,160,000, and \$795,000, respectively. During fiscal year 2007, a portion of the serial bonds were refunded with the 2007 issue, with the remaining to be paid from 2008 through 2015; the term bonds were refunded in their entirety with the 2007 issue; and the remaining capital appreciation bonds will be paid in 2015. The maturity of the capital appreciation bonds is \$2,450,000. For 2015, \$52,172 was accreted and \$640,000 of accretion was repaid. The bonds were paid from the Debt Service Fund from tax revenue, and matured in 2015.

2007 Refunding Obligation Bonds – On December 13, 2006, the School District issued \$29,717,026 in general obligation refunding bonds with interest rates from 4 to 4.125 percent, to refund \$27,920,000 of the 2005 Construction General Obligation Bonds. The bond issue included serial and term bonds and capital appreciation bonds in the amounts of \$6,905,000, \$20,695,000 and \$320,000, respectively. For 2015, \$110,604 was accreted for a total bond value of \$869,005, which includes accretion of \$549,005. The capital appreciation bonds will mature in fiscal years 2023 through 2025. The maturity of the bonds is \$5,715,000. The bonds will be paid from the Debt Service Fund from tax revenue.

The term bonds maturing on December 1, 2032 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1 each year at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2020	\$3,240,000
2027	5,915,000
2032	11,540,000

Unless otherwise called for redemption, the remaining principal amount of the term bonds due December 1, 2032 is to be paid at stated maturity.

The term bonds maturing on or after December 1 are subject from optional redemption in whole or in part on any date in inverse order of maturity and by lot within a maturity, at the option of the School District at 100 percent of the principal amount to be redeemed, which is par, plus accrued interest to the redemption date.

2009 School Energy Conservation Improvement Bonds – During fiscal year 2009, the School District issued \$524,000 in School Energy Conservation Improvement Bonds (Qualified Zone Academy Project) with a zero percent interest rate for the purpose of the School District’s HB 264 energy conservation project at the High School/Middle School. The bonds will mature on December 15, 2021. The bonds will be paid from the Debt Service Fund.

Compensated absences payable will be paid from the funds in which the employees were paid, with the most significant being the General Fund. Capital leases will be repaid from the General Fund. The School District pays obligations related to employee compensation from the fund benefitting from their service.

The School District’s overall legal debt margin was \$7,378,589 and the unvoted debt margin was \$380,741 at June 30, 2015.

Principal and interest requirements to retire general obligation debt at June 30, 2015 are as follows:

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2015

Fiscal Year Ending	Governmental Activities			
	2005 General Obligation Bonds		2007 General Obligation Bonds	
	Principal	Interest	Principal	Interest
2016	\$900,000	\$67,500	\$200,000	\$1,062,080
2017	945,000	23,625	215,000	1,053,780
2018	0	0	1,365,000	1,022,180
2019	0	0	1,435,000	966,180
2020	0	0	1,505,000	905,875
2021-2025	0	0	3,555,000	3,780,673
2026-2031	0	0	10,230,000	2,719,725
2032-2034	0	0	7,225,000	497,138
Totals	\$1,845,000	\$91,125	\$25,730,000	\$12,007,631

Fiscal Year Ending	2007 Capital Appreciation General Obligation Bonds		2009 General Obligation Bond
	Principal	Interest	Principal
	2016	\$0	\$0
2017	0	0	40,000
2018	0	0	40,000
2019	0	0	40,000
2020	0	0	40,000
2021-2025	320,000	5,395,000	80,000
Totals	\$320,000	\$5,395,000	\$280,000

**NOTE 14-CAPITAL LEASE**

In 2012, the School District entered into a capitalized lease for copier equipment. This lease meets the criteria of a capital lease as defined by accounting principles generally accepted in the United States of America, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. However, these expenditures are reported as current expenditures on the budgetary statement.

Capital assets acquired by this lease were initially capitalized in the statement of net position for governmental activities in the amount of \$515,083 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net position for governmental activities. Principal payments in fiscal year 2015 totaled \$105,103 and were paid from the General Fund.

Principal and interest requirements to retire the capital leases at June 30, 2015 are as follows:

Year Ending June 30	Capital Leases
2016	\$114,972
2017	57,486
Total Debt Payments	172,458
Less: Interest	(5,876)
Total Principal	\$166,582

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**NOTE 15-INTERFUND ACTIVITY**

As of June 30, 2015, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payables
General Fund	\$42,064	\$0
<i>Nonmajor Funds:</i>		
Public School Support	0	17,567
Miscellaneous State Grants	0	2,288
Title IV-B	0	8,168
Title I	0	7,863
Miscellaneous Federal Grants	0	6,178
<i>Total Nonmajor Funds</i>	0	42,064
<b>Total All Funds</b>	<b>\$42,064</b>	<b>\$42,064</b>

During the year, the School District's General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

**NOTE 16-JOINTLY GOVERNED ORGANIZATIONS**

*South Central Ohio Computer Association Council of Governments*-The School District is a participant in the South Central Ohio Computer Association Council of Governments (SCOCA COG) which is an information technology center. SCOCA COG is a council of governments providing information technology services to 58 public education entities, non-public education entities, and public libraries from 24 Ohio 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 SCOCA COG consists of two representatives from each county elected by majority vote of all charter member school districts within each county, two treasurers elected by majority vote of all charter member school districts, and one representative from the fiscal agent. The School District paid SCOCA COG \$258,208 for services provided during the year. Financial information can be obtained from Sandra Benson, Chief Financial Officer, 175 Beaver Creek Road, Suite C, Piketon, Ohio 45661.

*Pickaway-Ross Career and Technology Center*-The Pickaway-Ross Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various elected city and county school boards within Pickaway and Ross Counties. To obtain financial information write to the Pickaway-Ross Career and Technology Center, Ben Vanhorn, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

**NOTE 17-SET-ASIDE CALCULATIONS/FUND BALANCE RESTRICTIONS**

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

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

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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	<u>Capital Acquisition</u>
Set Aside Balance as of June 30, 2014	\$0
Current Year Set Aside Requirement	498,652
Current Year Qualifying Expenditures	<u>(1,195,493)</u>
Total	<u>(\$696,841)</u>
Balance Carried Forward to Fiscal Year 2016	<u>\$0</u>
Set-Aside Balance June 30, 2015	<u><u>\$0</u></u>

The carryover amount in the capital acquisition set-aside is limited to the balance of the offsets attributed to bond or tax levy proceeds. The School District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$18,248,370 as of June 30, 2015.

**NOTE 18-CONTINGENCIES**

**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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2015.

**Litigation**

The School District is not currently party to legal proceedings.

**Full Time Equivalency**

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**NOTE 19-ENCUMBRANCES**

At June 30, 2015, the School District had encumbrance commitments in governmental funds as follows:

<i>Major Fund</i>	
General	\$98,975
<i>Nonmajor Funds</i>	
Permanent Improvement	313,412
Public School Support	2,495
Other Grants	4,500
District Managed Activities	160
Auxiliary Services	31,089
Public School Preschool	2,863
Miscellaneous State Grants	2,518
Title VI-B	6,678
Title I	20,767
Miscellaneous Federal Grants	1,354
Total Nonmajor Funds	<u>385,836</u>
Total Encumbrances	<u>\$484,811</u>

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2015

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**NOTE 20-FUND BALANCES**

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 the governmental funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<i>Nonspendable</i>				
Library Purposes	\$0	\$0	\$450,000	\$450,000
Total Nonspendable	0	0	450,000	450,000
<i>Restricted for</i>				
Capital Projects	0	0	1,095,916	1,095,916
Food Service	0	0	498,028	498,028
Other Purposes	0	0	13,931	13,931
Nonpublic Schools	0	0	10,559	10,559
Debt Service	0	1,221,340	0	1,221,340
Library Purposes	0	0	43,116	43,116
Extracurricular Activities	0	0	2,468	2,468
Total Restricted	0	1,221,340	1,664,018	2,885,358
<i>Committed for</i>				
Capital Projects	0	0	500,000	500,000
Other Purposes	52,685	0	0	52,685
Total Committed	52,685	0	500,000	552,685
<i>Assigned to</i>				
Student and Staff Support	25,727	0	0	25,727
Other Purposes	32,997	0	0	32,997
Total Assigned	58,724	0	0	58,724
<i>Unassigned</i>	4,590,108	0	(167,280)	4,422,828
<i>Total Fund Balances</i>	\$4,701,517	\$1,221,340	\$2,446,738	\$8,369,595

**NOTE 21-CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT OF BEGINNING BALANCES**

For fiscal year 2015, the School District implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure.

**Chillicothe City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

Net Position June 30, 2014	\$7,782,483
Adjustments:	
Net Pension Liability	(38,349,057)
Deferred Outflows-Payments Subsequent to Measurement Date	<u>2,033,107</u>
Restated Net Position June 30, 2014	<u><u>(\$28,533,467)</u></u>

**Chillicothe City School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*Last Two Fiscal Years*

	2013	2014
<i>State Teachers Retirement System</i>		
School District's proportion of the net pension liability (asset)	0.10857377%	0.10857377%
School District's proportionate share of the net pension liability (asset)	\$31,458,107	\$26,408,898
School District's covered-employee payroll	\$10,958,115	\$10,683,146
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	287.075888%	247.201504%
Plan fiduciary net position as a percentage of the total pension liability	69.296426%	74.707076%
<i>School Employees Retirement System</i>		
School District's proportion of the net pension liability (asset)	0.11587900%	0.11587900%
School District's proportionate share of the net pension liability (asset)	\$6,890,954	\$5,864,570
School District's covered-employee payroll	\$4,026,510	\$4,167,597
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	171.139617%	140.718247%
Plan fiduciary net position as a percentage of the total pension liability	65.520824%	71.697842%

The amounts presented for each fiscal year were determined as of June 30.  
Information not available prior to 2013.

**Chillicothe City School District**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*Last Ten Fiscal Years*

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<i>State Teachers Retirement System</i>										
Contractually required contribution	\$1,653,602	\$1,600,129	\$1,623,600	\$1,642,896	\$1,850,881	\$1,744,207	\$1,666,842	\$1,424,555	\$1,388,809	\$1,539,408
Contributions in relation to the contractually required contribution	1,653,602	1,600,129	1,623,600	1,642,896	1,850,881	1,744,207	1,666,842	1,424,555	1,388,809	1,539,408
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
School District's covered-employee payroll	\$12,720,015	\$12,308,685	\$12,489,231	\$12,637,662	\$14,237,546	\$13,416,977	\$12,821,862	\$10,958,115	\$10,683,146	\$10,995,771
Contributions as a percentage of covered-employee payroll	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	14.00%
<i>School Employees Retirement System</i>										
Contractually required contribution	\$388,309	\$366,983	\$434,408	\$378,738	\$632,888	\$556,650	\$627,846	\$557,269	\$577,629	\$488,240
Contributions in relation to the contractually required contribution	388,309	366,983	434,408	378,738	632,888	556,650	627,846	557,269	577,629	488,240
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
School District's covered-employee payroll	\$3,670,217	\$3,436,170	\$4,423,707	\$3,848,963	\$4,674,210	\$4,428,401	\$4,668,000	\$4,026,510	\$4,167,597	\$3,704,401
Contributions as a percentage of covered-employee payroll	10.58%	10.68%	9.82%	9.84%	13.54%	12.57%	13.45%	13.84%	13.86%	13.18%

The amounts presented for each fiscal year were determined as of June 30.

**Chillicothe City School District**  
**Ross County**  
Schedule of Federal Awards Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2015

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>United States Department of Agriculture</b>						
<i>Passed through Ohio Department of Education</i>						
<i>Child Nutrition Cluster:</i>						
National School Lunch Program	3L60	10.555	\$ 1,119,500	\$ 104,394	\$ 1,119,500	\$ 104,394
School Breakfast Program	3L70	10.553	467,932	-	467,932	-
Total Nutrition Cluster			1,587,432	104,394	1,587,432	104,394
Fresh Fruit and Vegetable Program	3GG0	10.582	35,338	-	35,338	-
<b>Total United States Department of Agriculture</b>			1,622,770	104,394	1,622,770	104,394
<b>United States Department of Transportation</b>						
<i>Passed through Ohio Department of Transportation</i>						
Highway Planning and Construction	n/a	20.205	13,057	-	19,054	-
<b>Total United States Department of Transportation</b>			13,057	-	19,054	-
<b>United States Department of Education</b>						
<i>Passed through Ohio Department of Education</i>						
<i>Title I, Part A Cluster:</i>						
Title I Grants to Local Educational Agencies	3M00	84.010	1,386,202	-	1,392,309	-
Total Title I, Part A Cluster			1,386,202	-	1,392,309	-
<i>Special Education Cluster (IDEA):</i>						
Special Education - Grants to States	3M20	84.027	717,921	-	726,449	-
Special Education - Preschool Grants	3C50	84.173	7,468	-	7,468	-
Total Special Education Cluster			725,389	-	733,917	-
Education for Homeless Children and Youth	3EJ0	84.196	57,638	-	54,461	-
Rural Education	3Y80	84.358	61,154	-	58,225	-
Improving Teacher Quality State Grants	3Y60	84.367	232,779	-	237,151	-
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, ARRA	3FD0	84.395	3,850	-	3,850	-
<b>Total United States Department of Education</b>			2,467,012	-	2,479,913	-
<b>Total Federal Financial Assistance</b>			<b>\$ 4,102,839</b>	<b>\$ 104,394</b>	<b>\$ 4,121,737</b>	<b>\$ 104,394</b>

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

**CHILlicoTHE CITY SCHOOL DISTRICT  
ROSS COUNTY**

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

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – FOOD DONATION**

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

**NOTE C – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS**

Federal funds received from the National School Lunch and Breakfast Programs were commingled with state subsidy and local revenue from the sale of meals. It was assumed that federal dollars were expended first.



# Balestra, Harr & Scherer, CPAs, Inc.

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## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Chillicothe City School District  
Ross County  
475 Yoctangee Parkway  
Chillicothe, Ohio 45601

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 discretely presented component unit and remaining fund information of the Chillicothe City School District, Ross County, Ohio (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 18, 2015, wherein we noted the School District adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

### Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2015-001 to be a significant deficiency.

### **Compliance and Other Matters**

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

### **Entity's Response to Findings**

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

### **Purpose of this Report**

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

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Piketon, Ohio  
December 18, 2015



# Balestra, Harr & Scherer, CPAs, Inc.

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## Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Chillicothe City School District  
Ross County  
475 Yoctangee Parkway  
Chillicothe, Ohio 45601

To the Board of Education:

### Report on Compliance for the Major Federal Program

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

#### Management's Responsibility

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

#### Auditor's Responsibility

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

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

### Opinion on the Major Federal Program

In our opinion, Chillicothe City School District complied, in all material respects, with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

### **Report on Internal Control Over Compliance**

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

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

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

This report only describes the scope of our internal control 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.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Piketon, Ohio  
December 18, 2015

**Chillicothe City School District  
Ross County**

**Schedule of Findings  
OMB Circular A-133 Section §.505  
June 30, 2015**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

Chillicothe City School District  
Ross County

Schedule of Findings  
*OMB Circular A-133 Section §.505*  
June 30, 2015

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

**Finding Number 2015-001**

**Significant Deficiency**

An employee of the District was compensated \$1,409.20 more than the agreed upon contract amount. This overpayment occurred due to a data entry error made while manually inputting employee raises.

BHS verified that the amount of overpayment was repaid through payroll deductions of \$704.60 each on the September 18, 2015 and October 5, 2015 payroll runs.

The District lacks effective internal controls over data entry as it relates to payroll processing. The District should implement controls over data entry that would include a review of the coding of salary adjustments to ensure that the risk of overpayment to employees and others is low and unlikely to occur.

**Officials' Response:**

The Treasurer has added review procedures for all payroll adjustments to ensure proper coding.

**3. FINDINGS FOR FEDERAL AWARDS**

**None noted**

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# Dave Yost • Auditor of State

CHILLICOTHE CITY SCHOOL DISTRICT

ROSS COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 22, 2016