



OHIO AUDITOR OF STATE
KEITH FABER



**CHILLICOTHE CITY SCHOOL DISTRICT
ROSS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	21
Statement of Fiduciary Assets and Liabilities Agency Funds.....	22
Notes to the Basic Financial Statements	23
Required Supplementary Information:	
Schedule of the School District's Proportionate Share of the Net Pension Liability.....	65
Schedule of the School District's Proportionate Share of the Net OPEB Liability.....	66
Schedule of School District's Contributions.....	67
Notes to the Required Supplementary Information	68
Schedule of Expenditures of Federal Awards	71
Notes to the Schedule of Expenditures of Federal Awards.....	72

CHILLICOTHE CITY SCHOOL DISTRICT
ROSS COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	73
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	75
Schedule of Findings.....	77

OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Chillicothe City School District
Ross County
425 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 remaining fund information of the Chillicothe City School District, Ross County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Chillicothe City School District, Ross County, Ohio, as of June 30, 2018, 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 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The District also restated for the correction of a prior year capital lease. We did not modify our opinion regarding these matters.

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

Supplementary and Other Information

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

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

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information 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 February 4, 2019 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

February 4, 2019

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Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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, 2018. 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 assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2018 by \$10,706,598.
- The School District's net position of governmental activities increased \$16,200,254.
- General revenues accounted for \$33,446,566 or 78 percent of total revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9,417,881 or 22 percent of total revenues of \$42,864,447.
- The School District had \$26,664,193 in expenses related to governmental activities; only \$9,417,881 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 \$33,446,566 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, Debt Service Fund, Permanent Improvement Fund, and Disability Access Project 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, 2018
(Unaudited)

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 11. 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, Debt Service, Permanent Improvement, and Disability Access Project 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.

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 2018 compared to 2017.

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 1
Net Position

	Governmental Activities	
	2018	2017*
Assets:		
Current and Other Assets	\$54,163,929	\$77,599,819
Capital Assets, Net	<u>65,953,707</u>	<u>34,581,710</u>
Total Assets	<u>120,117,636</u>	<u>112,181,529</u>
Deferred Outflows of Resources	11,658,432	10,743,097
Liabilities:		
Current and Other Liabilities	8,213,959	3,666,994
Long-Term Liabilities	<u>97,125,710</u>	<u>113,033,050</u>
Total Liabilities	<u>105,339,669</u>	<u>116,700,044</u>
Deferred Inflows of Resources	15,729,801	11,718,238
Net Position:		
Net Investment in Capital Assets	24,082,649	3,916,720
Restricted	13,246,363	32,008,188
Unrestricted (Deficit)	<u>(26,622,414)</u>	<u>(41,418,564)</u>
Total Net Position	<u>\$10,706,598</u>	<u>(\$5,493,656)</u>

*As restated. See note 21 of the notes to the basic financial statements for more information. In addition, certain reclassifications were made for consistency of reporting between years.

The decrease of \$23,435,890 in current and other assets is primarily due to a decrease in cash and cash equivalents for spending for the Ohio School Facilities Commission project. There was also a large decrease in receivables due to draws made from the OSFC project award. The increase of \$31,371,997 in capital assets, net is due to current year additions exceeding current year depreciation expense and deletions. The significant increase was for construction in progress for the OSFC project. Deferred outflows of resources increased \$915,335 due to the recognition of an actuarially determined deferral related to the School District's proportionate share of the state-wide net OPEB liability due to the implementation of GASB 75, which is further discussed below. The recognition of this additional deferral was partially offset by the decrease in the actuarially determined deferral related to the School District's proportionate share of the state-wide net pension liability.

Current and other liabilities increased \$4,546,965 due to an increase in contracts and retainage payable. The decrease of \$15,907,340 in long-term liabilities is due to principal payments on debt obligations, as well as decreases in net pension and OPEB liabilities. Deferred inflows of resources increased by \$4,011,563 due to an increase in actuarially determined deferrals related to the School District's proportionate share of the state-wide net pension and OPEB liabilities.

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement 27." For fiscal year 2018, the School District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation, in addition to a restatement for unrecorded capital leases, also had the effect of restating net position at June 30, 2017 from \$4,347,855 to a deficit of \$5,493,656.

Table 2 shows the changes in net position for the fiscal years ended June 30, 2018 and June 30, 2017.

Table 2
Change in Net Position

	Governmental Activities	
	2018	2017
Revenues		
Program Revenues:		
Charges for Services and Sales	\$2,564,714	\$2,685,225
Operating Grants, Contributions, and Interest	6,616,948	6,685,459
Capital Grants, Contributions, and Interest	236,219	168,866
Total Program Revenues	9,417,881	9,539,550
General Revenues		
Property Taxes	14,858,639	15,474,883
Grants and Entitlements not Restricted to Specific Programs	17,995,000	17,799,898
Gifts and Donations not Restricted to Specific Programs	8,643	26,749
Gain on Sale of Assets	187,500	0
Investment Earnings	152,574	37,127
Miscellaneous	244,210	108,447
Total General Revenues	33,446,566	33,447,104
Total Revenues	42,864,447	42,986,654
Program Expenses		
Instruction		
Regular	7,026,148	15,398,517
Special	3,069,946	5,557,941
Vocational	80,560	64,050
Student Intervention Services and Other	5,321,169	5,301,949
Other		
Support Services	1,263,449	2,217,390
Pupils	241,068	894,480
Instructional Staff	319,139	101,225
Board of Education	1,378,083	2,444,764
Administration	680,151	1,120,211
Fiscal and Business	16,641	3,608,150
Operation and Maintenance of Plant	2,158,325	1,260,914
Pupil Transportation	905,160	214,749
Central	363,760	2,050,928
Operation of Non-Instructional Services	1,597,422	718,865
Extracurricular Activities	560,679	1,156,984
Interest and Fiscal Charges	1,682,493	393,379
Total Expenses	26,664,193	42,504,496

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 2
Change in Net Position
(Continued)

	Governmental Activities	
	2018	2017
Change in Net Position	\$16,200,254	\$482,158
Net Position at Beginning of Year-Restated	(5,493,656)	N/A
Net Position at End of Year	\$10,706,598	(\$5,493,656)

Property taxes decreased \$616,244 due to differences in amounts available for advance between years affecting revenue recognition. Unrestricted grants and entitlements increased \$195,102 due to an increase in State Foundation funding. Investment earnings increased \$115,447 due to increased market conditions. The School District recognized a gain on the sale of capital assets due to a property sale on a capital lease arrangement.

Various expense functions decreased due to the recognition of a negative pension and OPEB expense of \$11,288,810 allocated amongst the various expense functions. Aside from this, some functions increased due to increases in personnel costs. Operation and maintenance of plant expenses decreased due to a reduction in the amount of uncapitalizable repairs and maintenance between years. Interest expense decreased due to a decrease in debt obligations outstanding between years.

Governmental Activities

Property taxes comprised 35 percent of revenue for governmental activities of the School District for fiscal year 2018. Grants and entitlements not restricted comprised 42 percent of revenue for governmental activities during 2018.

As indicated by governmental program expenses, instruction is emphasized. Total instruction comprised 58 percent of governmental program expenses with support services comprising 27 percent of governmental expenses.

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$74,014 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$1,135,395. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$26,664,193
Negative OPEB expense under GASB 75	1,135,395
2018 contractually required contribution	95,008
Adjusted 2018 program expenses	27,894,596
Total 2017 program expenses under GASB 45	42,504,496
Decrease in program expenses not related to OPEB	(\$14,609,900)

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

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

services and the net cost of services for fiscal year 2018 as compared to 2017. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$15,497,823	\$9,744,395	\$26,322,457	\$20,454,947
Support Services	7,325,776	5,783,278	11,861,883	10,438,265
Operation of Non-Instructional Services	1,597,422	(378,045)	2,050,928	(54,246)
Extracurricular Activities	560,679	414,191	718,865	575,617
Interest and Fiscal Charges	1,682,493	1,682,493	1,156,984	1,156,984
Issuance Costs	0	0	393,379	393,379
Total Expenses	\$26,664,193	\$17,246,312	\$42,504,496	\$32,964,946

THE SCHOOL DISTRICT'S FUNDS

Information about the School District's major governmental funds begins on page 16. 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 \$53,110,215 and expenditures of \$73,950,968. The net change in fund balance for the year was significant in the General Fund, Debt Service Fund, and Disability Access Project Fund.

The fund balance of the General Fund increased in the amount of \$314,578 due to revenues in excess of expenditures. Revenues remained fairly consistent between years, but expenditures increased due to increases in personnel costs.

The fund balance of the Debt Service Fund decreased in the amount of \$200,860. The decrease in fund balance is primarily due a decrease in tax revenue.

The fund balance of the Permanent Improvement Fund decreased in the amount of \$70,762. The decrease in fund balance is primarily due a decrease in tax revenue, which was partially offset by a decrease in expenditures.

The fund balance of the Disability Access Project Fund decreased in the amount of \$18,423,517. The decrease was due to the expenditure of current and prior year draws from its Ohio School Facilities Commission grant award.

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 2018, 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 \$10,770,617.

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 4 shows the fiscal year 2018 balances compared to 2017.

Table 4
 Capital Assets
 (Net of Accumulated Depreciation)

	Governmental Activities	
	2018	2017*
Construction in Progress	\$33,662,131	\$2,381,358
Land and Improvements	1,731,994	1,715,330
Buildings and Improvements	27,749,844	27,805,157
Furniture and Equipment	1,847,191	1,991,295
Vehicles	962,547	688,570
Totals	\$65,953,707	\$34,581,710

*As restated. See note 21 of the notes to the basic financial statements for additional information.

The net increase in capital assets from the prior year resulted from current year additions of construction in progress, buildings and improvements, furniture and equipment, and vehicles exceeding depreciation and deletions. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (note 8).

Debt

At June 30, 2018, the School District had \$51,268,153 in bonds, bond anticipation notes, and capital leases outstanding with \$1,860,000 due within one year. Table 5 summarizes the bonds, notes, and capital leases outstanding:

Table 5
 Outstanding Debt at Year End

	Governmental Activities	
	2018	2017*
2007 General Obligation Refunding Bonds	\$1,340,588	\$1,155,917
2009 General Obligation Bond	160,000	200,000
2016 School Facilities Bond	21,872,955	22,237,662
2016 PI Tax Anticipation Notes	2,131,584	2,388,809
2016 Refunding Bonds	24,241,342	25,685,120
Capital Leases	1,521,684	283,439
Totals	\$51,268,153	\$51,950,947

*As restated. See note 21 of the notes to the basic financial statements for additional information.

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The School District's overall legal debt margin was (\$2,748,140) and the unvoted debt margin was \$414,691 at June 30, 2018. 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.

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, 425 Yoctangee Parkway, Chillicothe, Ohio 45601.

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Chillicothe City School District
Statement of Net Position
As of June 30, 2018

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$30,632,372
Accrued Interest Receivable	16,571
Accounts Receivable	79,536
Intergovernmental Receivable	6,462,157
Taxes Receivable	16,056,758
Capital Lease Receivable	180,000
Restricted Cash and Cash Equivalents	736,535
Non-Depreciable Capital Assets	34,269,271
Depreciable Capital Assets, net	<u>31,684,436</u>
<i>Total Assets</i>	120,117,636
Deferred Outflows of Resources:	
Pension	11,308,393
OPEB	<u>350,039</u>
<i>Total Deferred Outflows of Resources</i>	11,658,432
Liabilities:	
Accounts Payable	49,941
Accrued Wages and Benefits	3,339,873
Contracts Payable	3,544,071
Intergovernmental Payable	403,281
Accrued Interest Payable	117,300
Matured Compensated Absences Payable	22,958
Retainage Payable	736,535
Long-Term Liabilities:	
Due Within One Year	2,378,408
Due in More Than One Year	51,851,963
Net Pension Liability	34,850,726
Net OPEB Liability	<u>8,044,613</u>
<i>Total Liabilities</i>	105,339,669
Deferred Inflows of Resources:	
Property Taxes not Levied to Finance Current Year Operations	13,145,451
Pension	1,675,747
OPEB	<u>908,603</u>
<i>Total Deferred Inflows of Resources</i>	15,729,801
Net Position:	
Net Investment in Capital Assets	24,082,649
Restricted for Debt Service	2,613,401
Restricted for Capital Outlay	8,793,323
Restricted for Other Purposes	1,381,852
Restricted for Permanent Fund:	
Non-Expendable	450,000
Expendable	7,787
Unrestricted (Deficit)	<u>(26,622,414)</u>
<i>Total Net Position</i>	<u><u>\$10,706,598</u></u>

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, 2018

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	
Governmental Activities					
Instruction:					
Regular	\$7,026,148	\$999,751	\$305,217	\$0	(\$5,721,180)
Special	3,069,946	217,326	3,717,655	0	865,035
Vocational	80,560	5,643	135,396	0	60,479
Student Intervention Services	145	10	0	0	(135)
Other	5,321,024	372,430	0	0	(4,948,594)
Support Services:					
Pupils	1,263,449	118,621	233,679	0	(911,149)
Instructional Staff	241,068	41,307	132,537	0	(67,224)
Board of Education	319,139	20,057	0	0	(299,082)
Administration	1,378,083	222,113	112,414	0	(1,043,556)
Fiscal	680,151	51,315	20,195	0	(608,641)
Business	16,641	3,051	0	0	(13,590)
Operation and Maintenance of Plant	2,158,325	191,591	49,337	236,219	(1,681,178)
Pupil Transportation	905,160	75,463	6,128	0	(823,569)
Central	363,760	28,359	112	0	(335,289)
Operation of Non-Instructional Services	1,597,422	77,228	1,898,239	0	378,045
Extracurricular Activities	560,679	140,449	6,039	0	(414,191)
Interest and Fiscal Charges	1,682,493	0	0	0	(1,682,493)
<i>Total Governmental Activities</i>	<u>\$26,664,193</u>	<u>\$2,564,714</u>	<u>\$6,616,948</u>	<u>\$236,219</u>	<u>(17,246,312)</u>
General Revenues:					
Property Taxes Levied for:					
General Purposes					11,180,830
Debt Service					2,916,838
Capital Projects					760,971
Grants and Entitlements not					
Restricted for Specific Programs					17,995,000
Gifts and Donations not Restricted to					
Specific Programs					8,643
Gain on Sale of Assets					187,500
Investment Earnings					152,574
Miscellaneous					244,210
<i>Total General Revenues</i>					<u>33,446,566</u>
<i>Change in Net Position</i>					16,200,254
<i>Net Position Beginning of Year-Restated</i>					<u>(5,493,656)</u>
<i>Net Position End of Year</i>					<u>\$10,706,598</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, 2018

	General Fund	Debt Service Fund	Permanent Improvement Fund	Disability Access Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:						
Equity in Pooled Cash and Investments	\$11,237,412	\$2,034,748	\$1,191,443	\$12,792,032	\$3,376,737	\$30,632,372
Accrued Interest Receivable	0	0	0	15,577	994	16,571
Accounts Receivable	64,393	0	0	0	15,143	79,536
Interfund Receivable	81,963	0	0	0	0	81,963
Intergovernmental Receivable	68,686	0	0	5,565,982	827,489	6,462,157
Taxes Receivable	12,090,608	3,101,054	865,096	0	0	16,056,758
Capital Lease Receivable	0	0	180,000	0	0	180,000
Restricted Cash and Cash Equivalents	0	0	0	736,535	0	736,535
<i>Total Assets</i>	<u>\$23,543,062</u>	<u>\$5,135,802</u>	<u>\$2,236,539</u>	<u>\$19,110,126</u>	<u>\$4,220,363</u>	<u>\$54,245,892</u>
Liabilities:						
Accounts Payable	\$36,639	\$0	\$0	\$0	\$13,302	\$49,941
Accrued Wages and Benefits	2,800,199	0	3,784	0	535,890	3,339,873
Contracts Payable	0	0	0	3,351,133	192,938	3,544,071
Interfund Payable	0	0	0	0	81,963	81,963
Intergovernmental Payable	339,425	0	37	0	63,819	403,281
Matured Compensated Absences Payable	22,958	0	0	0	0	22,958
Retainage Payable	0	0	0	736,535	0	736,535
<i>Total Liabilities</i>	3,199,221	0	3,821	4,087,668	887,912	8,178,622
Deferred Inflows of Resources:						
Property Taxes Not Levied for Current Year Operations	9,920,850	2,522,401	702,200	0	0	13,145,451
Unavailable Revenue	460,971	108,737	202,955	5,565,982	595,550	6,934,195
<i>Total Deferred Inflows of Resources</i>	10,381,821	2,631,138	905,155	5,565,982	595,550	20,079,646
Fund Balances:						
Nonspendable	0	0	0	0	450,000	450,000
Restricted	0	2,504,664	1,327,563	9,456,476	1,725,543	15,014,246
Committed	444,427	0	0	0	764,570	1,208,997
Assigned	771,431	0	0	0	0	771,431
Unassigned (Deficit)	8,746,162	0	0	0	(203,212)	8,542,950
<i>Total Fund Balances</i>	<u>9,962,020</u>	<u>2,504,664</u>	<u>1,327,563</u>	<u>9,456,476</u>	<u>2,736,901</u>	<u>25,987,624</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$23,543,062</u>	<u>\$5,135,802</u>	<u>\$2,236,539</u>	<u>\$19,110,126</u>	<u>\$4,220,363</u>	<u>\$54,245,892</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, 2018*

Total Governmental Fund Balances \$25,987,624

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. 65,953,707

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

Taxes	542,758	
Intergovernmental	6,391,437	
Total	6,391,437	6,934,195

The net pension/OPEB 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	11,308,393	
Deferred Outflows-OPEB	350,039	
Deferred Inflows-Pension	(1,675,747)	
Deferred Inflows-OPEB	(908,603)	
Net Pension Liability	(34,850,726)	
Net OPEB Liability	(8,044,613)	
Total	(33,821,257)	(33,821,257)

Long-term liabilities, including bonds and related liabilities, notes, 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	(117,300)	
Compensated Absences	(2,962,218)	
Capital Leases	(1,521,684)	
Refunding Bonds	(21,765,000)	
Energy Conservation Bonds	(160,000)	
Capital Appreciation Bonds	(1,340,588)	
School Facilities Bonds	(20,490,000)	
Tax Anticipation Notes	(2,000,000)	
Premiums on Bonds	(3,859,297)	
Premiums on Bond Anticipation Notes	(131,584)	
Total	(54,347,671)	(54,347,671)

Net Position of Governmental Activities \$10,706,598

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, 2018

	General Fund	Debt Service Fund	Permanent Improvement Fund	Disability Access Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Property and Other Local Taxes	\$11,169,068	\$2,913,231	\$759,902	\$0	\$0	\$14,842,201
Intergovernmental	18,943,380	543,398	101,773	10,685,475	4,831,887	35,105,913
Interest	170,920	0	0	208,658	20,250	399,828
Increase (Decrease) in Fair Value of Investments	(19,436)	0	0	6,817	(5,948)	(18,567)
Tuition and Fees	2,114,145	0	0	0	172,300	2,286,445
Rent	11,886	0	0	0	0	11,886
Extracurricular Activities	38,531	0	0	0	101,715	140,246
Gifts and Donations	29,565	0	0	0	8,369	37,934
Customer Sales and Services	44,384	0	0	0	70,094	114,478
Miscellaneous	78,416	0	0	0	111,435	189,851
<i>Total Revenues</i>	<u>32,580,859</u>	<u>3,456,629</u>	<u>861,675</u>	<u>10,900,950</u>	<u>5,310,102</u>	<u>53,110,215</u>
Expenditures:						
Current:						
Instruction:						
Regular	12,554,073	0	0	0	420,449	12,974,522
Special	2,969,927	0	0	0	2,082,257	5,052,184
Vocational	80,560	0	0	0	0	80,560
Student Intervention Services	145	0	0	0	0	145
Other	5,316,532	0	0	0	0	5,316,532
Support Services:						
Pupils	1,726,420	0	0	0	220,418	1,946,838
Instructional Staff	556,430	0	0	0	108,773	665,203
Board of Education	286,313	0	0	0	36,019	322,332
Administration	2,333,379	0	0	0	175,974	2,509,353
Fiscal	729,370	67,664	19,410	0	18,350	834,794
Business	41,833	0	0	0	0	41,833
Operation and Maintenance of Plant	2,716,978	0	130,619	0	22,653	2,870,250
Pupil Transportation	1,072,941	0	18	0	6,244	1,079,203
Central	400,202	0	0	0	0	400,202
Operation of Non-Instructional Services	8,625	0	0	0	1,873,514	1,882,139
Extracurricular Activities	530,472	0	0	0	121,220	651,692
Capital Outlay	508,237	0	260,652	29,324,467	3,342,663	33,436,019
Debt Service:						
Principal	72,829	1,850,000	0	0	188,926	2,111,755
Interest and Fiscal Charges	11,015	1,739,825	0	0	24,572	1,775,412
<i>Total Expenditures</i>	<u>31,916,281</u>	<u>3,657,489</u>	<u>410,699</u>	<u>29,324,467</u>	<u>8,642,032</u>	<u>73,950,968</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	664,578	(200,860)	450,976	(18,423,517)	(3,331,930)	(20,840,753)
Other Financing Sources (Uses):						
Transfers In	0	0	100,000	0	1,236,912	1,336,912
Proceeds from Sale of Assets	0	0	15,000	0	0	15,000
Inception of Capital Lease	0	0	0	0	1,500,000	1,500,000
Transfers Out	(350,000)	0	(636,738)	0	(350,174)	(1,336,912)
<i>Total Other Financing Sources (Uses)</i>	<u>(350,000)</u>	<u>0</u>	<u>(521,738)</u>	<u>0</u>	<u>2,386,738</u>	<u>1,515,000</u>
<i>Net Change in Fund Balances</i>	314,578	(200,860)	(70,762)	(18,423,517)	(945,192)	(19,325,753)
<i>Fund Balances at Beginning of Year</i>	9,647,442	2,705,524	1,398,325	27,879,993	3,682,093	45,313,377
<i>Fund Balances at End of Year</i>	<u>\$9,962,020</u>	<u>\$2,504,664</u>	<u>\$1,327,563</u>	<u>\$9,456,476</u>	<u>\$2,736,901</u>	<u>\$25,987,624</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, 2018*

Net Change in Fund Balances - Total Governmental Funds (\$19,325,753)

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 capital asset additions exceeded depreciation in the current period.

Capital Asset Additions	33,436,019	
Current Year Depreciation	(1,643,168)	
Total		31,792,851

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		(428,223)
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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	16,438	
Contribution of Capital Assets	7,369	
Customer Sales and Service	1,818	
Tuition and Fees	9,841	
Capital Lease	172,500	
Miscellaneous	54,359	
Intergovernmental	(10,523,093)	
Total		(10,260,768)

Contractually required contributions are reported as expenditures in governmental funds. However, the statement of net position reports these amounts as deferred outflows.		2,442,590
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Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of		11,288,810
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Repayment of bond and note 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.		2,111,755
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The issuance of bonds in governmental funds increase long-term liabilities on the statement of net position but are not reported as revenues on the statement of activities.		(1,500,000)
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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	255,710	
Annual Accretion of Capital Appreciation Bonds	(184,671)	
Total		71,039

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	(13,927)	
Decrease in Interest Payable	21,880	
Total		7,953

Net Change in Net Position of Governmental Activities		<u><u>\$16,200,254</u></u>
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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, 2018*

	Budgeted Amounts		Actual	Variance with Final Budget: Positive (Negative)
	Original	Final		
Revenues:				
Property and Other Local Taxes	\$11,092,039	\$11,794,983	\$11,794,983	\$0
Intergovernmental	3,248,643	18,919,066	18,919,066	0
Interest	0	170,920	170,920	0
Tuition and Fees	16,845,227	2,112,437	2,112,110	(327)
Rent	0	11,886	11,886	0
Extracurricular Activities	0	20,742	20,742	0
Gifts and Donations	0	8,643	8,643	0
Customer Sales and Services	0	44,384	44,384	0
Miscellaneous	0	52,767	53,062	295
<i>Total Revenues</i>	31,185,909	33,135,828	33,135,796	(32)
Expenditures:				
Current:				
Instruction:				
Regular	30,734,772	12,449,826	12,449,826	0
Special	22,686	2,989,667	2,989,667	0
Vocational	1,772	107,856	107,856	0
Student Intervention Services	0	145	145	0
Other	1,900	5,324,556	5,324,556	0
Support Services:				
Pupils	53,339	1,742,252	1,742,252	0
Instructional Staff	19,706	569,051	569,051	0
Board of Education	1,219	296,213	296,213	0
Administration	8,733	2,292,148	2,292,148	0
Fiscal	9,431	738,084	738,084	0
Business	0	40,060	40,060	0
Operation and Maintenance of Plant	397,375	2,734,606	2,734,606	0
Pupil Transportation	461,367	1,437,227	1,437,227	0
Central	1,495	407,902	407,902	0
Operation of Non-Instructional Services	0	8,625	8,625	0
Extracurricular Activities	11,097	558,066	558,066	0
<i>Total Expenditures</i>	31,724,892	31,696,284	31,696,284	0
<i>Excess of Revenues Over (Under) Expenditures</i>	(538,983)	1,439,544	1,439,512	(32)
Other Financing Sources (Uses):				
Advances In	0	202,086	202,086	0
Transfers Out	0	(750,000)	(750,000)	0
Advances Out	0	(81,961)	(81,961)	0
<i>Total Other Financing Sources (Uses)</i>	0	(629,875)	(629,875)	0
<i>Net Change in Fund Balance</i>	(538,983)	809,669	809,637	(32)
<i>Fund Balance at Beginning of Year</i>	9,608,492	9,608,492	9,608,492	0
<i>Prior Year Encumbrances Appropriated</i>	352,488	352,488	352,488	0
<i>Fund Balance at End of Year</i>	\$9,421,997	\$10,770,649	\$10,770,617	(\$32)

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, 2018

	<u>Agency</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Investments	<u>\$122,784</u>
<i>Total Assets</i>	<u><u>\$122,784</u></u>
Liabilities:	
Current Liabilities:	
Undistributed Monies	\$16,681
Due to Students	<u>106,103</u>
<i>Total Liabilities</i>	<u><u>\$122,784</u></u>

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, 2018

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, 179 certificated full-time teaching personnel and 14 administrative employees who provide services to 2,873 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 does not have any component units requiring reporting.

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, 2018

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

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.

Permanent Improvements Fund

The account for all transactions related to acquiring, constructing or improving such permanent improvements as are authorized by Chapter 5705 of the Ohio Revised Code.

Disability Access Project Fund

The Disability Access Project Fund is used to account for monies received and expended in connection with contracts entered into by the School District and the Ohio School Facilities Commission for the building and equipping of classroom facilities.

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, 2018

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, 2018

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 and other post-employment benefits. These items are further explained in notes 10 and 11.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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, capital lease, pension, other post-employment benefits, and unavailable revenue. Property taxes for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 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, 2018. Deferred inflows of resources related to pension and other post-employment benefits are reported on the government-wide statement of net position and are further explained in notes 10 and 11.

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.

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

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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 2018, investments were limited to money market accounts, commercial paper, negotiable certificates of deposit, U.S. Treasury notes, 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 2018 amounted to \$170,920. The Disability Access Project Fund earned interest revenue of \$208,658. Nonmajor Governmental Funds earned interest revenue of \$20,250. The School District also experienced a decrease in fair value of investments of \$19,436 in the General Fund and \$5,948 Nonmajor Governmental Funds. The Disability Access Project Fund experienced an increase in fair value of investments of \$6,817.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the building fund are amounts held for retainage.

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

<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

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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.

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.

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. None of the School District’s restricted net position is restricted by enabling legislation.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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, 2018

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

Pensions/OPEB

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

NOTE 3-ACCOUNTABILITY

At June 30, 2018, the Public School Preschool, Miscellaneous State Grants, Title VI-B, Title I, and Improving Teacher Quality Nonmajor Special Revenue Funds had deficit fund balances of \$28,860, \$2,596, \$65,859, \$96,569, and \$9,328, 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.
4. In accordance with generally accepted accounting principles, 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 Termination Benefits 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	\$314,578
Revenue and Other	
Financing Sources Accruals	817,428
Expenditures and Other	
Financing Uses Accruals	145,418
Encumbrances	(55,793)
(Excess) Deficit of Funds Combined with	
General Fund for Reporting Purposes	(411,994)
Budget Basis	\$809,637

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 bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided 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 the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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

Investments may only be made through specified dealers and institutions. 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.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2018, the School District's bank balance of \$10,740,497 was either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described below.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of June 30, 2018, the School District had the following investments and maturities.

Investment Type	Fair Value	Less than 1 Year	1-2 Years	% of Total	Credit Rating (S&P)
Money Market Funds	\$28,787	\$28,787	\$0	0%	AAAm
Commercial Paper	5,871,023	5,871,023	0	24%	N/A
Negotiable CDs	4,212,512	3,146,410	1,066,102	18%	N/A
Treasury Notes	750,769	750,769	0	3%	AAAm
US Government Agency Securities:					
FFCB	2,246,572	2,246,572	0	9%	AA+
FHLB	5,680,070	4,193,703	1,486,367	24%	AA+
FHLMC	3,004,997	2,758,073	246,924	13%	AA+
FNMA	2,153,774	2,153,774	0	9%	AA+
Total	\$23,948,504	\$21,149,111	\$2,799,393	100%	

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. The above chart identifies the School District's recurring fair value measurements as of June 30, 2018. The money market fund is measured at fair value and is valued using quoted market prices (Level 1 inputs). The School District's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data (Level 2 inputs).

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.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Credit Risk. The School District’s investment policy does not address credit risk beyond the requirements of the Ohio Revised Code. The negotiable certificates of deposit are not rated but are covered by FDIC as described in the deposits section above.

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.

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 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, 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 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, and are collected in 2018 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 2018 taxes were collected are:

	2017 Second-Half Collections		2018 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$373,031,940	93.81%	\$380,478,820	91.75%
Public Utility	24,613,910	6.19%	34,212,250	8.25%
Total Assessed Value	\$397,645,850	100.00%	\$414,691,070	100.00%
 Tax Rate per \$1,000 of Assessed Valuation	 \$58.00		 \$57.80	

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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, 2018, are available to finance fiscal year 2018 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, 2018. 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, 2018, was \$1,766,192 in the General Fund, \$469,916 in the Debt Service Fund and \$132,441 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, 2018, consisted of property taxes, capital lease, 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 Funds:</i>	
General	\$68,686
Disability Access Project	5,565,982
<i>Nonmajor Special Revenue Funds:</i>	
Early Literacy	5,082
Secondary Transition	1,616
Public School Preschool	60,555
Title VI-B	132,168
School Improvement	16,408
Title I	189,506
Homelessness	302,219
Improving Teacher Quality	26,170
Miscellaneous Federal Grants	93,765
<i>Total Nonmajor Funds</i>	<u>827,489</u>
<i>Total All Funds</i>	<u><u>\$6,462,157</u></u>

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 8-CAPITAL ASSETS

Capital assets activity of the fiscal year ended June 30, 2018 was as follows:

	<u>Ending Balance 6/30/17*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/18</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$534,650	\$169,260	(\$96,770)	\$607,140
Construction in Progress	<u>2,381,358</u>	<u>31,280,773</u>	<u>0</u>	<u>33,662,131</u>
Total Capital Assets, Not Being Depreciated	<u>2,916,008</u>	<u>31,450,033</u>	<u>(96,770)</u>	<u>34,269,271</u>
Capital Assets Being Depreciated				
Land Improvements	2,000,495	0	0	2,000,495
Buildings and Improvements	46,730,788	1,380,346	(380,141)	47,730,993
Furniture and Equipment	5,912,994	212,706	(232,502)	5,893,198
Vehicles	<u>2,308,847</u>	<u>400,303</u>	<u>(216,387)</u>	<u>2,492,763</u>
Total Capital Assets, Being Depreciated	<u>56,953,124</u>	<u>1,993,355</u>	<u>(829,030)</u>	<u>58,117,449</u>
Less Accumulated Depreciation				
Land Improvements	(819,815)	(55,826)	0	(875,641)
Buildings and Improvements	(18,925,631)	(1,143,875)	88,357	(19,981,149)
Furniture and Equipment	(3,921,699)	(314,741)	190,433	(4,046,007)
Vehicles	<u>(1,620,277)</u>	<u>(128,726)</u>	<u>218,787</u>	<u>(1,530,216)</u>
Total Accumulated Depreciation	<u>(25,287,422)</u>	<u>(1,643,168)</u>	<u>497,577</u>	<u>(26,433,013)</u>
Total Capital Assets Being Depreciated, Net	<u>31,665,702</u>	<u>350,187</u>	<u>(331,453)</u>	<u>31,684,436</u>
Governmental Activities Capital Assets, Net	<u>\$34,581,710</u>	<u>\$31,800,220</u>	<u>(\$428,223)</u>	<u>\$65,953,707</u>

*As restated. See note 21 for additional information. In addition, certain reclassifications were made for consistency with the School District's internal capital asset records.

Depreciation expense was charged to the governmental functions as follows:

Instruction:	
Regular	\$1,266,237
Special	14,684
Other	4,492
Support Services:	
Pupils	608
Instructional Staff	11,353
Administration	10,605
Fiscal	8,646
Business	1,148
Operation and Maintenance of Plant	56,799
Pupil Transportation	161,068
Operation of Non-Instrumental Services	79,347
Extracurricular Activities	<u>28,181</u>
Total Depreciation Expense	<u>\$1,643,168</u>

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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 2018, the School District contracted with The Netherlands Insurance Company 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
 <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.	68,060,502

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 or Cost of
Comprehensive (\$1,000 Deductible)	Repair, whichever is less
Collision (\$1,000 Deductible)	

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, life insurance through the Metropolitan Educational Council, and supplemental life insurance through Grady Enterprises.

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 the accrual and modified bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	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 years 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, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent was allocated to the Health Care Fund.

The School District’s contractually required contributions to SERS were \$593,096 for fiscal year 2018.

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 website at www.strsoh.org.

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

The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contributions to STRS were \$1,754,486 for fiscal year 2018.

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, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.13317600%	0.11495518%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.13309090%</u>	<u>0.11323341%</u>	
Change in Proportionate Share	<u>-0.00008510%</u>	<u>-0.00172177%</u>	
Proportionate Share of the Net			
Pension Liability	\$7,951,887	\$26,898,839	\$34,850,726
Pension Expense	(\$40,252)	(\$10,113,163)	(\$10,153,415)

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<i>Deferred Outflows of Resources</i>			
Differences between expected and actual experience	\$342,220	\$1,038,707	\$1,380,927
Changes of assumptions	411,197	5,883,072	6,294,269
Changes in proportion and differences between School District contributions and proportionate share of contributions	375,646	909,969	1,285,615
School District contributions subsequent to the measurement date	<u>593,096</u>	<u>1,754,486</u>	<u>2,347,582</u>
Total Deferred Outflows of Resources	<u>\$1,722,159</u>	<u>\$9,586,234</u>	<u>\$11,308,393</u>
<i>Deferred Inflows of Resources</i>			
Differences between expected and actual experience	\$0	\$216,794	\$216,794
Net difference between projected and actual earnings on pension plan investments	37,747	887,694	925,441
Changes in proportion and differences between School District contributions and proportionate share of contributions	<u>26,332</u>	<u>507,180</u>	<u>533,512</u>
Total Deferred Inflows of Resources	<u>\$64,079</u>	<u>\$1,611,668</u>	<u>\$1,675,747</u>

\$2,347,582 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$564,879	\$1,438,781	\$2,003,660
2020	573,151	2,661,156	3,234,307
2021	133,408	1,740,904	1,874,312
2022	<u>(206,454)</u>	<u>379,239</u>	<u>172,785</u>
Total	<u>\$1,064,984</u>	<u>\$6,220,080</u>	<u>\$7,285,064</u>

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.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was for the five-year period ended June 30, 2015.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
 Total	 <u><u>100.00 %</u></u>	

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Discount Rate The total pension liability was calculated using the discount rate of 7.5 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 (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
School District's proportionate share of the net pension liability	\$11,035,153	\$7,951,887	\$5,369,023

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017 actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, 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 no set back from age 90 and above.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Actuarial assumptions used in the July 1, 2017 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016 valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

*10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
School District's proportionate share of the net pension liability	\$38,558,571	\$26,898,839	\$17,077,263

NOTE 11 – POSTEMPLOYMENT BENEFITS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the School District’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

Plan Description - School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS’ Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS’ health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS’ health care coverage. Most retirees and dependents choosing SERS’ health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS’ website at www.ohsers.org under employers/audit resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS’ Retirement Board reserves the right to change or discontinue any health plan or program. Active

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. 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 2018, the School District's surcharge obligation was \$73,041.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate, is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$95,008 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.13317600%	0.11495518%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.13513480%</u>	<u>0.11323341%</u>	
Change in Proportionate Share	<u>0.00195880%</u>	<u>-0.00172177%</u>	
Proportionate Share of the Net			
OPEB Liability	\$3,626,663	\$4,417,950	\$8,044,613
OPEB Expense	\$212,724	(\$1,348,119)	(\$1,135,395)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<i>Deferred Outflows of Resources</i>			
Differences between expected and actual experience	\$0	\$255,031	\$255,031
School District contributions subsequent to the measurement date	<u>95,008</u>	<u>0</u>	<u>95,008</u>
Total Deferred Outflows of Resources	<u>\$95,008</u>	<u>\$255,031</u>	<u>\$350,039</u>
<i>Deferred Inflows of Resources</i>			
Changes of assumptions	\$344,151	\$355,880	\$700,031
Net difference between projected and actual earnings on OPEB plan investments	9,577	188,834	198,411
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	<u>10,161</u>	<u>0</u>	<u>10,161</u>
Total Deferred Inflows of Resources	<u>\$363,889</u>	<u>\$544,714</u>	<u>\$908,603</u>

\$95,008 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	(\$130,768)	(\$64,016)	(\$194,784)
2020	(130,768)	(64,016)	(194,784)
2021	(99,958)	(64,016)	(163,974)
2022	(2,395)	(64,018)	(66,413)
2023	0	(16,808)	(16,808)
Thereafter	<u>0</u>	<u>(16,809)</u>	<u>(16,809)</u>
Total	<u>(\$363,889)</u>	<u>(\$289,683)</u>	<u>(\$653,572)</u>

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017 are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
School District's proportionate share of the net OPEB liability	\$4,379,657	\$3,626,663	\$3,030,099

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
School District's proportionate share of the net OPEB liability	\$2,942,765	\$3,626,663	\$4,531,813

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017 actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)” and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

*10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's proportionate share of the net OPEB liability	\$5,931,027	\$4,417,950	\$3,222,125

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB liability	\$3,069,402	\$4,417,950	\$6,192,796

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, 270 days for certified personnel, and 270 days for classified personnel. Upon retirement, payment is made for 35 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 who retire is 40 percent of accrued sick leave up to a maximum of 270 hours, or 88 days. Payment to classified employees who separate from service for reasons other than retirement (except discharge for just cause) is 25 percent of accrued sick leave up to a maximum of 270 hours, or 55 days.

Insurance

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

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 2018, the School District did have employees that were eligible to take advantage of this benefit.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 13-LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2018 were as follows:

	Outstanding 6/30/17*	Additions	Deductions	Outstanding 6/30/18	Amounts Due within One Year
<i>Governmental Activities:</i>					
2007 Construction Capital Appreciation Bonds 17.7712-17.8754%	\$320,000	\$0	\$0	\$320,000	\$0
Accretion of Capital Appreciation Bonds	835,917	184,671	0	1,020,588	0
2009 School Energy Conservation Improvement Term Bonds 0%	200,000	0	(40,000)	160,000	40,000
2016 School Facilities Bonds:					
Series 2016A	12,040,000	0	(265,000)	11,775,000	235,000
Series 2016A Premium	487,264	0	(13,229)	474,035	0
Series 2016B	8,765,000	0	(50,000)	8,715,000	50,000
Series 2016B Premium	945,398	0	(36,478)	908,920	0
2016 Refunding Bonds	23,035,000	0	(1,270,000)	21,765,000	1,310,000
2016 Refunding Bonds Premium	2,650,120	0	(173,778)	2,476,342	0
Total General Obligation Bonds	49,278,699	184,671	(1,848,485)	47,614,885	1,635,000
Anticipation Notes:					
2016 PI TANs	2,225,000	0	(225,000)	2,000,000	225,000
2016 PI TANs Premium	163,809	0	(32,225)	131,584	0
	2,388,809	0	(257,225)	2,131,584	225,000
Capital Leases	283,439	1,500,000	(261,755)	1,521,684	352,777
Compensated Absences	2,948,291	1,842,533	(1,828,606)	2,962,218	165,631
Net Pension Liability	48,226,218	0	(13,375,492)	34,850,726	0
Net OPEB Liability	9,907,594	0	(1,862,981)	8,044,613	0
Total Governmental Activities Long-Term Obligations	\$113,033,050	\$3,527,204	(\$19,434,544)	\$97,125,710	\$2,378,408

*As restated. See note 21 for additional information.

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 2018, \$184,671 was accreted for a total bond value of \$1,340,588, which includes accretion of \$1,020,588. 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 with the remaining balance of the serial and term bonds refunded in fiscal year 2017 with the 2016 refunding bonds.

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

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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.

Anticipation Notes – During August 2016, the School District issued permanent improvement tax anticipation notes (TANs) in the amount of \$2,500,000. These TANs were issued in anticipation of the collection of the proceeds of the two and five-tenths (2.5) mill continuing permanent improvement levy approved by electors of the School District on March 2, 2004 for the purpose of funding general, ongoing permanent improvements. These TANs were issued with interest rates ranging from 1 percent to 4 percent and a maturity date of December 1, 2025.

School Facilities Construction and Improvement Bonds, Series 2016A and B – During May 2016, the School District issued general obligation bonds in the amounts of \$12,650,000 and \$8,815,000, respectively, for the purpose of repaying bond anticipation notes that were issued for the purpose of constructing and renovating school facilities and locally funded initiatives under the Classroom Facilities Assistance Program of the Ohio School Facilities Commission and to provide for furnishing, equipping, and improving these facilities. These bonds were issued with interest rates ranging from 1 to 4 percent and maturity dates of December 1, 2053 and December 1, 2042, respectively. Series A bonds include serial and term bonds in the amounts of \$2,670,000 and \$9,980,000, respectively. Series B bonds include serial and term bonds in the amounts of \$7,815,000 and \$1,000,000, respectively. The bonds will be paid from the Debt Service Fund.

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

<u>Year</u>	<u>Amount</u>
2025	\$5,000
2026	5,000
2027	5,000
2028	5,000
2029	5,000
2030	5,000
2031	5,000
2032	5,000
2033	5,000
2034	5,000
2035	5,000

The remaining principal amount of the term bonds (\$5,000) will be paid at stated maturity on December 1, 2036.

The Series A term bonds maturing on December 1, 2046 are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount to be redeemed, plus accrued interest to the redemption date, on December 1 in the years and in the respective principal amounts as follows:

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

<u>Year</u>	<u>Amount</u>
2037	\$5,000
2038	5,000
2039	10,000
2040	10,000
2041	10,000
2042	315,000
2043	695,000
2044	730,000
2045	765,000

The remaining principal amount of the term bonds (\$805,000) will be paid at stated maturity on December 1, 2046.

The Series A term bonds maturing on December 1, 2053 are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount to be redeemed, plus accrued interest to the redemption date, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2047	\$845,000
2048	875,000
2049	905,000
2050	935,000
2051	970,000
2052	1,000,000

The remaining principal amount of the term bonds (\$1,040,000) will be paid at stated maturity on December 1, 2053.

The Series B term bonds maturing on December 1, 2042 are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount to be redeemed, plus accrued interest to the redemption date, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2041	\$640,000

The remaining principal amount of the term bonds (\$360,000) will be paid at stated maturity on December 1, 2042.

2016 Refunding Bonds – During September 2016, the School District issued general obligation bonds in the amount of \$23,385,000 for the purpose of currently refunding a portion of the School District’s 2007 Refunding Obligations Bonds. The School District decreased its total debt service payments by \$3,673,617 as a result of this refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$3,071,265 and incurred an accounting gain of \$78,083 (difference between reacquisition price and net carrying amount of old debt). These bonds were issued with interest rates ranging from 2 to 5 percent and maturity dates of December 1, 2032. 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 (\$2,748,140) and the unvoted debt margin was \$414,691 at June 30, 2018.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Principal and interest requirements to retire general obligation debt at June 30, 2018 are as follows:

Fiscal Year Ending	2016 Refunding Bonds	
	Principal	Interest
2019	\$1,310,000	\$874,600
2020	1,360,000	835,300
2021	1,565,000	780,900
2022	1,640,000	718,300
2023	0	652,700
2024-2028	5,375,000	3,020,700
2029-2033	10,515,000	1,294,200
Totals	\$21,765,000	\$8,176,700

Fiscal Year Ending	General Obligation Bonds 2007 Capital Appreciation		2009 General Obligation Bond
	Principal	Interest	Principal
2019	\$0	\$0	\$40,000
2020	0	0	40,000
2021	0	0	40,000
2022	0	0	40,000
2023	125,000	1,780,000	0
2024-2025	195,000	3,615,000	0
Totals	\$320,000	\$5,395,000	\$160,000

Fiscal Year Ending	2016 School Facilities Construction and Improvement Bonds		2016 PI TANS	
	Principal	Interest	Principal	Interest
2019	\$285,000	\$777,375	\$225,000	\$68,400
2020	290,000	771,875	230,000	63,900
2021	295,000	764,925	235,000	57,000
2022	305,000	756,425	245,000	49,950
2023	310,000	746,400	250,000	42,600
2024-2028	1,745,000	3,550,850	815,000	66,200
2029-2033	2,085,000	3,204,275	0	0
2034-2038	2,520,000	2,763,625	0	0
2039-2043	3,090,000	2,218,650	0	0
2044-2048	3,840,000	1,443,588	0	0
2049-2053	4,685,000	602,962	0	0
2054	1,040,000	18,200	0	0
Totals	\$20,490,000	\$17,619,150	\$2,000,000	\$348,050

NOTE 14-CAPITAL LEASES

Lessee

In 2012 and 2015, the School District entered into capitalized leases for copier equipment. In 2017, the School District entered into a lease-purchase agreement to finance the purchase of property, improvements, and equipment. These leases meet the criteria of capital leases 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

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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 \$2,390,783 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 2018 totaled \$261,755 and were paid from the General Fund and Permanent Improvement Fund.

Principal and interest requirements to retire the capital leases at June 30, 2018 are as follows:

<u>Year Ending June 30</u>	<u>Capital Leases</u>
2019	\$390,117
2020	404,092
2021	390,126
2022	320,247
2022	<u>106,748</u>
Total Debt Payments	1,611,330
Less: Interest	<u>(89,646)</u>
Total Principal	<u>\$1,521,684</u>

Lessor

The School District is the lessor in a direct financing lease with the City of Chillicothe (lessee) for a sale of its bus garage. By its original terms, the lease was entered into on April 24, 2017 with payments scheduled to begin on April 1, 2018 and end on April 1, 2020 with a balloon payment of \$127,500. The School District has recognized a lease receivable of \$187,500 that is equal to the future minimum lease payments to be received. Payments received during fiscal year 2018 totaled \$7,500.

The following represents a summary of the future minimum lease payments to be received by the School District as of June 30, 2018:

<u>Year Ending June 30</u>	<u>Capital Leases</u>
2019	\$30,000
2020	<u>150,000</u>
Total Future Minimum Lease Receivable	<u>\$180,000</u>

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 15-INTERFUND ACTIVITY

Interfund Receivables/Payables

As of June 30, 2018, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payables</u>
<i>Major Fund:</i>		
General Fund	\$81,963	\$0
<i>Nonmajor Funds:</i>		
Miscellaneous State Grants	0	1,850
School Improvement Grant	0	21,915
Title I	0	31,533
Title VI-R	0	5,099
Miscellaneous Federal Grants	0	21,566
Total Nonmajor Funds	<u>0</u>	<u>81,963</u>
Total All Funds	<u>\$81,963</u>	<u>\$81,963</u>

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

Transfers

For the year ended June 30, 2018, the School District had the following interfund transactions:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<i>Major Funds:</i>		
General Fund	\$0	\$350,000
Permanent Improvement Fund	100,000	636,738
<i>Nonmajor Funds:</i>		
Lunchroom Fund	0	350,174
Energy Conservation Fund	796,541	0
Capital Projects Fund	250,000	0
Classroom Facilities Maintenance Fund	190,371	0
Total Nonmajor Funds	<u>1,236,912</u>	<u>350,174</u>
Total All Funds	<u>\$1,336,912</u>	<u>\$1,336,912</u>

During the year, the School District's Permanent Improvement Fund and Lunchroom Fund transferred funds to the Energy Conservation Fund and Classroom Facilities Maintenance Fund to provide funds for the locally funded initiative project and maintenance program associated with the OSFC project. The General Fund provided funds to subsidize operations.

NOTE 16-JOINTLY GOVERNED ORGANIZATIONS

Miami Valley Educational Computer Association – The Miami Valley Educational Computer Association (MVECA) is a jointly governed organization consisting of 42 school districts, service centers, community schools, STEM schools, and parochial schools in Clark, Clinton, Fayette, Greene, Highland, Madison, Montgomery, and Ross Counties. The jointly governed organization was formed for the purpose of applying modern technology with

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports MVECA and shares in a percentage of equity based on the resources provided. MVECA is governed by a board of directors consisting of superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. To obtain financial information write to: Director, 330 East Enon Road, Yellow Springs, Ohio 45387.

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, Todd Stahr, 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.

	<u>Capital Acquisition</u>
Set Aside Balance as of June 30, 2017	\$0
Current Year Set Aside Requirement	508,142
Current Year Qualifying Expenditures	<u>(2,751,387)</u>
Total	<u>(\$2,243,245)</u>
Balance Carried Forward to Fiscal Year 2019	<u>\$0</u>
Set-Aside Balance June 30, 2018	<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, 2018.

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, 2018.

Litigation

The School District is not currently party to legal proceedings.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Full Time Equivalency

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

NOTE 19-ENCUMBRANCES

Encumbrances

At June 30, 2018, the School District had encumbrance commitments in governmental funds as follows:

<i>Major Funds</i>	
General	\$75,446
Disability Access Project	4,866,650
<i>Nonmajor Funds</i>	
Locally Fund Initiative	276,987
Food Service	3,855
Preschool/Latchkey	320
District Managed Activities	8,155
Auxiliary Services	3,171
Miscellaneous State Grants	1,616
School Improvement Grant	7,190
Title I	20,995
Title II-A	11,999
Miscellaneous Federal Grants	23,462
Total Nonmajor Funds	<u>357,750</u>
Total Encumbrances	<u>\$5,299,846</u>

Contractual Commitments

The School District had the following significant contractual commitments outstanding at June 30, 2018:

Contractor	Contract	Contract Amount	Paid Through June 30, 2018	Remaining Balance
Motz Engineering	Commissioning Agent-OSFC Project	\$193,899	\$48,749	\$145,150
Summitt Construction	Construction-OSFC Project	10,665,460	6,075,323	4,590,137
SHP Leading Design	Architect/Engineering-OSFC Project	3,152,237	2,743,887	408,350

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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	Permanent Improvement Fund	Disability Access Project Fund	Other Governmental Funds	Total Governmental Funds
<i>Nonspendable</i>						
Library Purposes	\$0	\$0	\$0	\$0	\$450,000	\$450,000
<i>Restricted for</i>						
Capital Projects and Maintenance	0	0	1,327,563	9,456,476	1,139,444	11,923,483
Food Service	0	0	0	0	412,190	412,190
Other Purposes	0	0	0	0	101,979	101,979
Nonpublic Schools	0	0	0	0	64,143	64,143
Debt Service	0	2,504,664	0	0	0	2,504,664
Library Purposes	0	0	0	0	7,787	7,787
Total Restricted	0	2,504,664	1,327,563	9,456,476	1,725,543	15,014,246
<i>Committed for</i>						
Capital Projects	0	0	0	0	750,000	750,000
Termination Benefits	400,000	0	0	0	0	400,000
Services and Supplies	44,427	0	0	0	14,570	58,997
Total Committed	444,427	0	0	0	764,570	1,208,997
<i>Assigned to</i>						
Student and Staff Support FY19 Appropriations in Excess of Estimated Receipts	46,139	0	0	0	0	46,139
Services and Supplies	705,055	0	0	0	0	705,055
Total Assigned	771,431	0	0	0	0	771,431
<i>Unassigned (Deficit)</i>	8,746,162	0	0	0	(203,212)	8,542,950
Total Fund Balances	\$9,962,020	\$2,504,664	\$1,327,563	\$9,456,476	\$2,736,901	\$25,987,624

NOTE 21- IMPLEMENTATION OF NEW ACCOUNTING PRONUCEMENTS/RESTATEMENT OF BEGINNING BALANCES

For the fiscal year ended June 30, 2018, the School District was required to implement Governmental Accounting Standards Board Statements No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," No. 81, "Irrevocable Split-Interest Agreements," No. 85, "Omnibus 2017," and No. 86, "Certain Debt Extinguishment Issues."

GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." Among other things, Statement No.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The School District implemented GASB 75, which resulted in expanded note disclosures and required supplementary information, restatement of beginning net position, and recognition of additional deferred inflows and outflows of resources and liabilities.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. Statement No. 81 requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 85 addresses issues found during the application of: 1) blending a component unit in circumstances in which the primary government is a business-type activity reporting in a single column for financial statement presentation; 2) reporting amounts previously reported as goodwill and “negative” goodwill; 3) classifying real estate held by insurance entities; 4) measuring certain money market investments and participating interest-earning investment contracts at amortized cost; 5) timing of the measurement of pension and other postemployment benefits (OPEB) liabilities and related expenditures recognized in financial statements prepared using the current financial resources measurement focus; 6) recognizing on-behalf payments for pensions or OPEB in employer financial statements; and 7) simplifying certain aspects of the alternative measurement method for OPEB. These changes were incorporated in the School District’s fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86 provides guidance for transactions in which cash and other monetary assets acquired with only existing resources, that is, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. Under Statement No. 7, “Advance Refundings Resulting in Defeasance of Debt,” government entities must consider debt to be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. Statement No. 86 generally follows the same requirements as Statement No. 7 when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Except as noted above, none of these Statements had an impact on the School District’s financial statements or note disclosures.

In addition, the School District discovered that it had previously unreported its 2015 capital leases for copiers. The School District restated its beginning balances to include these asset and lease balances.

The implementation of GASB Statement No. 75 and the restatement for leases had the following effect on beginning net position.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Net Position, As Reported, June 30, 2017	\$4,347,855
Restatements:	
GASB 75 Implementation:	
Deferred Outflows of Resources	74,014
Net OPEB Liability	(9,907,594)
Leases:	
Leased Capital Assets	275,508
Capital Lease Obligation	(283,439)
Net Position, As Restated, July 1, 2017	<u>(5,493,656)</u>

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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

	2014	2015	2016	2017	2018
<i>State Teachers Retirement System</i>					
School District's proportion of the net pension liability	0.10857377%	0.10857377%	0.11320302%	0.11495518%	0.11323341%
School District's proportionate share of the net pension liability	\$31,458,107	\$26,408,898	\$31,286,004	\$38,478,964	\$26,898,839
School District's covered-employee payroll	\$10,958,115	\$10,683,146	\$10,995,771	\$13,174,171	\$13,237,257
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	287.1%	247.2%	284.5%	292.1%	203.2%
Plan fiduciary net position as a percentage of the total pension liability	69.3%	74.7%	72.1%	66.8%	75.3%
<i>School Employees Retirement System</i>					
School District's proportion of the net pension liability	0.11587900%	0.11587900%	0.12520490%	0.13317600%	0.13309090%
School District's proportionate share of the net pension liability	\$6,890,954	\$5,864,570	\$7,144,312	\$9,747,254	\$7,951,887
School District's covered-employee payroll	\$4,026,510	\$4,167,597	\$3,704,401	\$4,209,571	\$4,228,114
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	171.1%	140.7%	192.9%	231.5%	188.1%
Plan fiduciary net position as a percentage of the total pension liability	65.5%	71.7%	69.2%	63.0%	69.5%

The amounts presented are as of the School District's measurement date, which is the prior fiscal year end.
Information not available prior to 2014.
See accompanying notes to the required supplementary information.

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

	2017	2018
<i>State Teachers Retirement System</i>		
School District's proportion of the net OPEB liability	0.11495518%	0.11323341%
School District's proportionate share of the net OPEB liability	\$6,055,752	\$4,417,950
School District's covered-employee payroll	\$13,174,171	\$13,237,257
School District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	46.0%	33.4%
Plan fiduciary net position as a percentage of the total OPEB liability	37.3%	47.1%
 <i>School Employees Retirement System</i>		
School District's proportion of the net OPEB liability	0.13317600%	0.13513480%
School District's proportionate share of the net OPEB liability	\$3,851,842	\$3,626,663
School District's covered-employee payroll	\$4,209,571	\$4,228,114
School District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	91.5%	85.8%
Plan fiduciary net position as a percentage of the total OPEB liability	11.5%	12.5%

The amounts presented are as of the School District's measurement date, which is the prior fiscal year end.
Information not available prior to 2017.
See accompanying notes to the required supplementary information.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<i>State Teachers Retirement System</i>										
Contractually required contribution - pension	\$1,642,896	\$1,850,881	\$1,744,207	\$1,666,842	\$1,424,555	\$1,388,809	\$1,539,408	\$1,844,384	\$1,853,216	\$1,754,486
Contractually required contribution - OPEB	126,377	142,375	134,170	128,219	109,581	106,831	0	0	0	0
Contractually required contribution - total	1,769,273	1,993,256	1,878,377	1,795,061	1,534,136	1,495,640	1,539,408	1,844,384	1,853,216	1,754,486
Contributions in relation to the contractually required contribution	1,769,273	1,993,256	1,878,377	1,795,061	1,534,136	1,495,640	1,539,408	1,844,384	1,853,216	1,754,486
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
School District's covered-employee payroll	\$12,637,662	\$14,237,546	\$13,416,977	\$12,821,862	\$10,958,115	\$10,683,146	\$10,995,771	\$13,174,171	\$13,237,257	\$12,532,043
Contributions as a percentage of covered-employee payroll - pension	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	14.00%	14.00%	14.00%	14.00%
Contributions as a percentage of covered-employee payroll - OPEB	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.00%
Contributions as a percentage of covered-employee payroll - total	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
<i>School Employees Retirement System</i>										
Contractually required contribution - pension	\$378,738	\$632,888	\$556,650	\$627,846	\$557,269	\$577,629	\$488,240	\$589,340	\$591,936	\$593,096
Contractually required contribution - OPEB (1)	160,117	21,501	63,326	25,674	6,442	5,835	30,376	0	0	21,967
Contractually required contribution - total	538,855	654,389	619,976	653,520	563,711	583,464	518,616	589,340	591,936	615,063
Contributions in relation to the contractually required contribution	538,855	654,389	619,976	653,520	563,711	583,464	518,616	589,340	591,936	615,063
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
School District's covered-employee payroll	\$3,848,963	\$4,674,210	\$4,428,401	\$4,668,000	\$4,026,510	\$4,167,597	\$3,704,401	\$4,209,571	\$4,228,114	\$4,393,304
Contributions as a percentage of covered-employee payroll - pension	9.84%	13.54%	12.57%	13.45%	13.84%	13.86%	13.18%	14.00%	14.00%	13.50%
Contributions as a percentage of covered-employee payroll - OPEB	4.16%	0.46%	1.43%	0.55%	0.16%	0.14%	0.82%	0.00%	0.00%	0.50%
Contributions as a percentage of covered-employee payroll - total	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

(1) Excludes surcharge.

See accompanying notes to the required supplementary information.

Chillicothe City School District
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

State Teachers Retirement System

Pension

Changes in benefit terms

For fiscal year 2018, the cost of living adjustment (COLA) was reduced to 0 percent effective July 1, 2017.

Changes in assumptions

For fiscal year 2018, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date:

- Inflation assumptions were lowered from 2.75 percent to 2.50 percent.
- Investment return assumptions were lowered from 7.75 percent to 7.45 percent.
- Total salary increases rates were lowered by decreasing merit component of the individual salary increases, as well as by 0.25 percent due to lower inflation.
- Payroll growth assumptions were lowered to 3.00 percent.
- Updated the health and disability mortality assumption to the RP-2014 mortality tables with generational improvement scale MP-2016.
- Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

OPEB

Changes in benefit terms

For fiscal year 2018, STRS has the following changes in benefit terms since the previous measurement date:

- The HealthSpan HMO plans were eliminated.
- The subsidy multiplier for non-Medicare benefit recipients was reduced to 1.9 percent per year of service from 2.1 percent.
- Medicare Part B premium reimbursements were discontinued for survivors and beneficiaries who were age 65 by 2008 and either receiving a benefit or named as a beneficiary as of January 1, 2008.
- The remaining Medicare Part B premium reimbursements will be phased out over a three-year period.

Changes in assumptions

For fiscal year 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB 74.
- The long-term rate of return was reduced to 7.45 percent.
- Valuation-year per capita health costs were updated.
- The percentage of future retirees electing each option was updated based on current data.
- The assumed future trend rates were modified.
- Decrement rates including mortality, disability, retirement, and withdrawal were modified.
- The assumed percentage of future disabled retirees assumed to elect health coverage was decreased from 84 percent to 65 percent, and the assumed percentage of terminated vested participants assumed to elect health coverage at retirement was decreased from 47 percent to 30 percent.
- The assumed salary scale was modified.

Chillicothe City School District
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

School Employees Retirement System

Pension

Changes in benefit terms

For fiscal year 2018, the following were the most significant changes in benefit that affected the total pension liability since the prior measurement date:

- The cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.5 percent with a floor of 0 percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendars 2018, 2019, and 2020.

Changes in assumptions

There were no changes in assumptions since the prior measurement date.

OPEB

Changes in benefit terms

There were no changes in benefit terms since the prior measurement date.

Changes in assumptions

For fiscal year 2018, the following was the most significant change of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate was increased from 2.98 percent to 3.63.

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CHILLICOTHE CITY SCHOOL DISTRICT
ROSS COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Receipts	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.555	3L60	1,184,612	1,184,612
National School Lunch Program non-cash	10.555	3L60	108,113	108,113
School Breakfast Program	10.553	3L70	<u>463,447</u>	<u>463,447</u>
Total Nutrition Cluster			1,756,172	1,756,172
Fresh Fruit and Vegetable Program	10.582	3GF0	1,500	1,500
Team Nutrition Grant	10.574	3GF0	4,000	-
School Food Equipment	10.579	3GF0	<u>49,826</u>	<u>49,826</u>
Total U.S. Department of Agriculture			<u>1,811,498</u>	<u>1,807,498</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES				
<i>Passed Through State Library of Ohio</i>				
Grants to States	45.310	3130	-	315
Total Institute of Museum and Library Services			-	<u>315</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
<i>Passed Through Ohio Department of Transportation</i>				
Highway Planning and Construction Cluster:				
Highway Planning and Construction Cluster	20.205	N/A	-	1,128
Total Highway Planning and Construction Cluster			-	1,128
Total U.S. Department of Transportation			-	<u>1,128</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	3M00	10,413	6,044
Title I Grants to Local Educational Agencies	84.010	3M00	54,290	69,007
Title I Grants to Local Educational Agencies	84.010	3M00	33,700	33,707
Title I Grants to Local Educational Agencies	84.010	3M00	319,250	249,165
Total Title I			<u>1,132,293</u>	<u>1,150,097</u>
			1,549,946	1,508,020
Special Education Cluster:				
Special Education - Grants to States	84.027	3M20	127,470	120,536
Special Education - Grants to States	84.027	3M20	<u>646,568</u>	<u>643,316</u>
Total Special Education - Grants to States			774,038	763,852
Special Education - Preschool Grants	84.173	3C50	13,396	13,396
Total Special Education Cluster			<u>787,434</u>	<u>777,248</u>
Education for Homeless Children and Youth	84.196	3EJ0	19,022	18,427
Education for Homeless Children and Youth	84.196	3EJ1	<u>59,080</u>	<u>51,814</u>
Total Education for Homeless Children and Youth			78,102	70,241
Rural Education	84.358	3Y80	8,219	3,848
Rural Education	84.358	3Y80	<u>25,328</u>	<u>24,913</u>
Total Rural Education			33,547	28,761
Improving Teacher Quality State Grants	84.367	3Y60	32,665	34,199
Improving Teacher Quality State Grants	84.367	3Y60	153,700	146,800
Ohio Teacher of the Year Grant	84.367	3Y60	6,000	-
Ohio Teacher of the Year Grant	84.367	3Y60	<u>5,000</u>	<u>5,000</u>
Total Improving Teacher Quality			197,365	185,999
Student Support and Academic Enrichment	84.424	3HI0	9,983	8,486
Total U.S. Department of Education			<u>2,656,377</u>	<u>2,578,755</u>
Total Expenditures of Federal Awards			<u>4,467,875</u>	<u>4,387,696</u>

The accompanying notes are an integral part of this schedule.

**CHILlicothe CITY SCHOOL DISTRICT
ROSS COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Chillicothe City School District (the District's) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

NOTE E – MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal Funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

NOTE F – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2017 to 2018 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants	84.010	\$25,252
Title I School Improvement-Sub A	84.010	\$70,698
Title V-B Rural and Low Income	84.358	\$38,299
IDEA-B Special Education	84.027	\$22,034

OHIO AUDITOR OF STATE KEITH FABER



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

Chillicothe City School District
Ross County
425 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 remaining fund information of the Chillicothe City School District, Ross County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 4, 2019 wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No, 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We also noted the District had a prior year restatement for correction of a capital lease.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

February 4, 2019

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited Chillicothe City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of Chillicothe City School District's major federal programs for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on each Major Federal Program

In our opinion, Chillicothe City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2018.

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242

Phone: 513-361-8550 or 800-368-7419

www.ohioauditor.gov

Report on Internal Control Over Compliance

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

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

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

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



Keith Faber
Auditor of State
Columbus, Ohio

February 4, 2019

**CHILLICOTHE CITY SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 10.553 and 10.555 Child Nutrition Cluster CFDA #84.027 and 84.173 Special Education Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR § 200.520?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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OHIO AUDITOR OF STATE
KEITH FABER



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
FEBRUARY 19, 2019**