



Balestra, Harr & Scherer, CPAs, Inc.

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

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CHILLICOTHE CITY SCHOOL DISTRICT
ROSS COUNTY

SINGLE AUDIT

For the Year Ended June 30, 2014
Fiscal Year Audited Under GAGAS: 2014



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Chillicothe City School District, Ross County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

March 10, 2015

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**CHILlicothe CITY SCHOOL DISTRICT
ROSS COUNTY**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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Balestra, Harr & Scherer, CPAs, Inc.

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

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Independent Auditor's Report

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the Chillicothe City School District, Ross County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the Chillicothe City School District, Ross County, Ohio, as of June 30, 2014, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 19, 2014

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(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, 2014. 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 exceeded its liabilities at June 30, 2014 by \$7,782,483.
- The School District's net position of governmental activities increased \$2,757,696.
- General revenues accounted for \$29,313,521 in revenue or 78.67 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for \$7,948,644 or 21.33 percent of total revenues of \$37,262,165.
- The School District had \$34,504,469 in expenses related to governmental activities; only \$7,948,644 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 \$29,313,521 were adequate to provide for these programs.

USING THIS ANNUAL FINANCIAL REPORT

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

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

REPORTING THE SCHOOL DISTRICT AS A WHOLE

Statement of Net Position and Statement of Activities

The analysis of the School District as a whole begins on page 6. These reports provide information that will help the reader to determine whether the School District is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities 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 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.

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

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

Governmental Funds. Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The fund financial statements can be found on pages 13 through 17 of this report.

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 on page 18 of this report. 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. These notes to the basic financial statements can be found on pages 19 through 48 of this report.

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

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 2014 compared to 2013.

Table 1
Net Position

	Governmental Activities	
	2014	2013*
Assets:		
Current and Other Assets	\$23,544,676	\$19,165,211
Capital Assets, Net	34,110,299	34,481,279
Total Assets	57,654,975	53,646,490
Liabilities:		
Current and Other Liabilities	3,268,484	3,404,607
Long-Term Liabilities	33,068,183	34,172,305
Total Liabilities	36,336,667	37,576,912
Deferred Inflows of Resources:		
Property Taxes not Levied for Current Operations	13,535,825	11,044,791
Net Position:		
Net Investment in Capital Assets	4,306,417	3,929,845
Restricted	3,414,782	3,237,457
Unrestricted (Deficit)	61,284	(2,142,515)
Total Net Position	\$7,782,483	\$5,024,787

*As restated. See note 20 of the notes to the basic financial statements.

The increase of \$4,379,465 in current and other assets is primarily due to an increase in cash and cash equivalents and taxes receivable, due primarily to an increase in expected levy collections.

The decrease of \$370,980 in capital assets, net is due to current year depreciation expense and deletions exceeding current year additions.

Current and other liabilities remained relatively consistent between years.

The decrease of \$1,104,122 in long-term liabilities is due primarily to the current year reduction of debt, which was partially offset by an increase in accretion on capital appreciation bonds.

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Table 2 shows the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 2
Change in Net Position

	Governmental Activities	
	2014	2013*
Revenues		
Program Revenues:		
Charges for Services and Sales	\$2,066,072	\$1,982,508
Operating Grants and Contributions	5,882,572	4,700,622
Total Program Revenues	<u>7,948,644</u>	<u>6,683,130</u>
General Revenues		
Property Taxes	13,944,613	12,140,903
Grants and Entitlements not Restricted to Specific Programs	14,977,126	14,933,989
Gifts and Donations not Restricted to Specific Programs	700	2,400
Investment Earnings	15,644	(1,893)
Insurance Recoveries	6,818	11,296
Miscellaneous	368,620	176,751
Total General Revenues	<u>29,313,521</u>	<u>27,263,446</u>
Total Revenues	37,262,165	33,946,576
Program Expenses		
Instruction		
Regular	14,143,368	17,268,308
Special	4,423,884	3,028,509
Vocational	6,682	28
Other	3,934,147	166,504
Support Services		
Pupils	1,208,926	1,765,027
Instructional Staff	770,279	1,056,938
Board of Education	61,466	59,691
Administration	2,117,611	1,914,884
Fiscal & Business	864,635	880,438
Operation and Maintenance of Plant	2,224,303	2,015,808
Pupil Transportation	1,156,250	1,013,395
Central	244,853	211,530
Operation of Non-Instructional Services	1,609,452	1,611,138
Extracurricular Activities	523,397	461,343
Interest & Fiscal Charges	1,215,216	1,462,244
Total Expenses	<u>34,504,469</u>	<u>32,915,785</u>
Change in Net Position	2,757,696	1,030,791
Net Position at Beginning of Year	5,024,787	3,993,996
Net Position at End of Year	<u>\$7,782,483</u>	<u>\$5,024,787</u>

*As restated. See note 20 of the notes to the basic financial statements.

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

Operating grants and contributions increased \$1,181,950 due to a change in funding allocations with the State Foundation funding. Property taxes increased \$1,803,710 related to an increase in receivables due to additional tax levy funds expected to be received in fiscal year 2015. Miscellaneous revenue increased \$191,869, due mainly to donations for the bleacher project and revenues for the sale of assets.

Regular instruction decreased \$3,124,940. Special instruction increased \$1,395,375. Other instruction increased \$3,767,643. Pupils and instructional staff expenses decreased \$556,101 and \$286,659, respectively. Most of these changes were the result of changes in expense coding when the new treasurer took her position in early fiscal year 2014.

Governmental Activities

Property taxes comprised 37.42 percent of revenue for governmental activities of the School District for fiscal year 2014 and represents one of the largest sources of revenue. Property tax growth has been limited in the past by H.B. 920 reduction factors, which restrict inflationary growth on existing property resulting from re-appraisal activity. Ross County completed a re-appraisal in calendar year 2013. However, due to H.B. 920 the School District received only a modest increase in tax revenue due to new construction and inside millage which is not subject to H.B. 920. Property tax growth has been negatively impacted by H.B. 66 which eliminates the tangible personal property tax. While, the School District was fully reimbursed by the State through fiscal year 2013, the reimbursement is being phased out beginning in fiscal year 2014. The School District also passed a levy in 2013 and collections on that levy began in 2014.

Grants and entitlements not restricted comprised 40.19 percent of revenue for governmental activities during 2014.

As indicated by governmental program expenses, instruction is emphasized. Total instruction comprised 65.23 percent of governmental program expenses with support services comprising 25.06 percent of governmental expenses.

The statement of activities shows the cost of program services and the charges for services and sales, grants and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2014 as compared to 2013. 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

	2014		2013	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$22,508,081	\$17,531,477	\$20,463,349	\$16,621,120
Support Services	8,648,323	7,471,112	8,917,711	7,796,960
Operation of Non-Instructional Services	1,609,452	(72,240)	1,611,138	(10,929)
Extracurricular Activities	523,397	410,260	461,343	363,260
Interest and Fiscal Charges	1,215,216	1,215,216	1,462,244	1,462,244
Total Expenses	\$34,504,469	\$26,555,825	\$32,915,785	\$26,232,655

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

THE SCHOOL DISTRICT'S FUNDS

Information about the School District's major governmental funds begins on page 13. 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 \$37,122,642 and expenditures of \$35,238,118. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund increased in the amount of \$2,030,616. The increase in fund balance is primarily due to an increase of property tax revenues and Foundation funding.

The fund balance of the Debt Service Fund increased in the amount of \$227,951. The increase in fund balance is primarily due to an increase of property tax revenues.

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 2014, there were revisions to the General Fund budget. The School District's actual revenues and other financing sources were 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 \$4,205,784.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 4 shows the fiscal year 2014 balances compared to 2013.

Table 4
 Capital Assets
 (Net of Accumulated Depreciation)

Governmental Activities	2014	2013*
Land and Improvements	\$1,229,223	\$787,747
Buildings and Improvements	30,498,303	31,303,662
Furniture and Equipment	2,047,760	2,043,876
Vehicles	335,013	345,994
Totals	<u>\$34,110,299</u>	<u>\$34,481,279</u>

*As restated. See note 20 of the notes to the basic financial statements. In addition, the School District reviewed its capital asset records and made certain reclassifications among asset classes for more accurate classification presentation.

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

Chillicothe City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

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

Debt

At June 30, 2014, the School District had \$30,830,113 in bonds and capital leases outstanding with \$1,172,931 due within one year. Table 5 summarizes the bonds, notes, and capital leases outstanding:

Table 5
 Outstanding Debt at Year End

	2014	2013
2005 Construction Bond	\$2,731,415	\$3,442,857
2007 General Obligation Refunding Bonds	27,507,013	27,693,469
2009 General Obligation Bond	320,000	360,000
2012 Capital Lease	271,685	372,265
Totals	\$30,830,113	\$31,868,591

The School District's overall legal debt margin was \$7,336,437 and the unvoted debt margin was \$387,352 at June 30, 2014.

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. A bit of good news has come our way with the passage of an emergency five year levy in May of 2013. We starting collecting this revenue in 2014.

The School District still struggles with open enrollment and the loss of over 600 students annually. This is substantial and will always be a financial burden to the School District. HB153 put another burden on Chillicothe with the loss of TPP (tangible personal property tax). The TPP fixed rate received by the State is keeping us afloat but this is always a worry because the TPP fixed rate could be eliminated. On the upside the biennium budget looks favorably for Chillicothe with an increase in State funding of \$700,000 in fiscal year 2015.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Chillicothe City School District
Statement of Net Position
As of June 30, 2014

	Governmental Activities	Component Unit Chillicothe Education Foundation
Assets:		
Equity in Pooled Cash and Investments	\$7,539,821	\$0
Cash and Cash Equivalents in Segregated Accounts	2,161	0
Cash and Investments	0	3,329
Accounts Receivable	32,912	0
Intergovernmental Receivable	596,090	0
Taxes Receivable	15,373,692	0
Restricted Assets:		
Cash and Investments	0	691,539
Non-Depreciable Capital Assets	545,010	0
Depreciable Capital Assets, net	33,565,289	0
<i>Total Assets</i>	57,654,975	694,868
Liabilities:		
Accounts Payable	34,815	0
Scholarships Payable	0	56,000
Accrued Wages and Benefits	2,718,608	0
Intergovernmental Payable	423,067	0
Accrued Interest Payable	91,994	0
Long-Term Liabilities:		
Due Within One Year	1,241,804	0
Due in More Than One Year	31,826,379	0
<i>Total Liabilities</i>	36,336,667	56,000
Deferred Inflows of Resources:		
Property Taxes not Levied to Finance Current Year Operations	13,535,825	0
Net Position:		
Net Investment in Capital Assets	4,306,417	0
Restricted for Debt Service	1,060,473	0
Restricted for Capital Outlay	1,452,427	0
Restricted for Other Purposes	396,266	0
Restricted for Permanent Fund:		
Non-Expendable	450,000	0
Expendable	55,616	0
Restricted for Scholarships:		
Non-Expendable	0	500,000
Expendable	0	135,539
Unrestricted	61,284	3,329
<i>Total Net Position</i>	\$7,782,483	\$638,868

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, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	Component Unit Chillicothe Education Foundation
		Charges for Services and Sales	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$14,143,368	\$778,188	\$557,397	(\$12,807,783)	\$0
Special	4,423,884	165,573	3,243,191	(1,015,120)	0
Vocational	6,682	394	0	(6,288)	0
Other	3,934,147	231,861	0	(3,702,286)	0
Support Services:					
Pupils	1,208,926	64,791	134,232	(1,009,903)	0
Instructional Staff	770,279	30,415	352,503	(387,361)	0
Board of Education	61,466	3,624	0	(57,842)	0
Administration	2,117,611	157,493	89,031	(1,871,087)	0
Fiscal	823,601	43,616	21,058	(758,927)	0
Business	41,034	2,352	0	(38,682)	0
Operation and Maintenance of Plant	2,224,303	116,329	87,632	(2,020,342)	0
Pupil Transportation	1,156,250	61,071	3,087	(1,092,092)	0
Central	244,853	9,884	93	(234,876)	0
Operation of Non-Instructional Services	1,609,452	289,954	1,391,738	72,240	0
Extracurricular Activities	523,397	110,527	2,610	(410,260)	0
Interest and Fiscal Charges	1,215,216	0	0	(1,215,216)	0
<i>Total Governmental Activities</i>	<u>\$34,504,469</u>	<u>\$2,066,072</u>	<u>\$5,882,572</u>	(26,555,825)	0
Component Unit					
Chillicothe Education Foundation	<u>\$86,363</u>	<u>\$0</u>	<u>\$51,076</u>		(35,287)

General Revenues:

Property Taxes Levied for:		
General Purposes	11,269,532	0
Debt Service	1,910,830	0
Capital Projects	764,251	0
Grants and Entitlements not Restricted for Specific Programs	14,977,126	0
Gifts and Donations not Restricted to Specific Programs	700	0
Investment Earnings	15,644	108,053
Insurance Recoveries	6,818	0
Miscellaneous	368,620	2,955
<i>Total General Revenues</i>	<u>29,313,521</u>	<u>111,008</u>
<i>Change in Net Position</i>	2,757,696	75,721
<i>Net Position Beginning of Year-Restated</i>	<u>5,024,787</u>	<u>563,147</u>
<i>Net Position End of Year</i>	<u>\$7,782,483</u>	<u>\$638,868</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, 2014

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$4,284,399	\$809,727	\$2,445,695	\$7,539,821
Cash and Cash Equivalents in Segregated Accounts	0	0	2,161	2,161
Accounts Receivable	3,329	0	29,583	32,912
Interfund Receivable	61,233	0	0	61,233
Intergovernmental Receivable	51,802	0	544,288	596,090
Taxes Receivable	12,492,113	2,080,773	800,806	15,373,692
<i>Total Assets</i>	<u>\$16,892,876</u>	<u>\$2,890,500</u>	<u>\$3,822,533</u>	<u>\$23,605,909</u>
Liabilities:				
Accounts Payable	\$27,916	\$0	\$6,899	\$34,815
Accrued Wages and Benefits	2,330,612	0	387,996	2,718,608
Interfund Payable	0	0	61,233	61,233
Intergovernmental Payable	345,656	0	77,411	423,067
<i>Total Liabilities</i>	2,704,184	0	533,539	3,237,723
Deferred Inflows of Resources:				
Property Taxes Not Levied for Current Year Operations	11,006,493	1,830,027	699,305	13,535,825
Unavailable Revenue	409,126	63,519	366,132	838,777
<i>Total Deferred Inflows of Resources</i>	11,415,619	1,893,546	1,065,437	14,374,602
Fund Balances:				
Nonspendable	0	0	450,000	450,000
Restricted	0	996,954	1,416,739	2,413,693
Committed	35,182	0	500,000	535,182
Assigned	32,620	0	0	32,620
Unassigned (Deficit)	2,705,271	0	(143,182)	2,562,089
<i>Total Fund Balances</i>	<u>2,773,073</u>	<u>996,954</u>	<u>2,223,557</u>	<u>5,993,584</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$16,892,876</u>	<u>\$2,890,500</u>	<u>\$3,822,533</u>	<u>\$23,605,909</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, 2014*

Total Governmental Fund Balances	\$5,993,584
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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	34,110,299
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Taxes	454,851	
Customer Sales and Service	1,156	
Tuition and Fees	18,384	
Miscellaneous	654	
Intergovernmental	<u>363,732</u>	
 Total		 838,777

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

Accrued Interest Payable	(91,994)	
Compensated Absences	(2,238,070)	
Capital Leases	(271,685)	
Refunding Bonds	(25,910,000)	
Construction Bonds	(1,845,000)	
Energy Conservation Bonds	(320,000)	
Capital Appreciation Bonds	(1,606,229)	
Premiums on Bonds	<u>(877,199)</u>	
 Total		 <u>(33,160,177)</u>

Net Position of Governmental Activities	<u><u>\$7,782,483</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 Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Local Taxes	\$11,207,554	\$1,903,342	\$765,392	\$13,876,288
Intergovernmental	16,016,147	507,056	4,258,394	20,781,597
Interest	4,272	0	4,096	8,368
Increase in Fair Value of Investments	7,276	0	0	7,276
Tuition and Fees	1,430,214	0	106,623	1,536,837
Rent	9,870	0	0	9,870
Extracurricular Activities	51,588	0	79,596	131,184
Gifts and Donations	11,271	0	23,344	34,615
Customer Sales and Services	81,030	0	287,611	368,641
Miscellaneous	147,535	0	220,431	367,966
<i>Total Revenues</i>	<u>28,966,757</u>	<u>2,410,398</u>	<u>5,745,487</u>	<u>37,122,642</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,733,185	0	1,205,271	12,938,456
Special	2,681,060	0	1,639,952	4,321,012
Vocational	6,682	0	0	6,682
Other	3,951,879	0	0	3,951,879
Support Services:				
Pupils	1,056,397	0	141,841	1,198,238
Instructional Staff	467,942	0	321,168	789,110
Board of Education	61,466	0	0	61,466
Administration	1,969,130	0	140,405	2,109,535
Fiscal	747,511	43,217	40,125	830,853
Business	41,944	0	0	41,944
Operation and Maintenance of Plant	1,969,961	0	241,582	2,211,543
Pupil Transportation	1,024,965	0	19,010	1,043,975
Central	167,862	0	76,991	244,853
Operation of Non-Instructional Services	7,885	0	1,507,127	1,515,012
Extracurricular Activities	400,743	0	120,295	521,038
Capital Outlay	39,375	0	1,158,945	1,198,320
Debt Service:				
Principal	100,580	975,000	0	1,075,580
Interest and Fiscal Charges	14,392	1,164,230	0	1,178,622
<i>Total Expenditures</i>	<u>26,442,959</u>	<u>2,182,447</u>	<u>6,612,712</u>	<u>35,238,118</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	2,523,798	227,951	(867,225)	1,884,524
Other Financing Sources (Uses):				
Transfers In	0	0	500,000	500,000
Transfers Out	(500,000)	0	0	(500,000)
Insurance Recoveries	6,818	0	0	6,818
<i>Total Other Financing Sources (Uses)</i>	<u>(493,182)</u>	<u>0</u>	<u>500,000</u>	<u>6,818</u>
<i>Net Change in Fund Balances</i>	2,030,616	227,951	(367,225)	1,891,342
<i>Fund Balances at Beginning of Year</i>	<u>742,457</u>	<u>769,003</u>	<u>2,590,782</u>	<u>4,102,242</u>
<i>Fund Balances at End of Year</i>	<u><u>\$2,773,073</u></u>	<u><u>\$996,954</u></u>	<u><u>\$2,223,557</u></u>	<u><u>\$5,993,584</u></u>

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

Chillicothe City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014*

Net Change in Fund Balances - Total Governmental Funds \$1,891,342

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

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

Capital Asset Additions	1,198,320	
Current Year Depreciation	(1,566,991)	
Total		(368,671)

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		(2,309)
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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	68,325	
Customer Sales and Service	1,156	
Tuition and Fees	18,384	
Miscellaneous	654	
Intergovernmental	44,186	
Total		132,705

Repayment of bond principal and lease obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net position and does not result in an expense in the statement of activities. 1,075,580

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	196,970	
Annual Accretion of Capital Appreciation Bonds	(234,073)	
Total		(37,103)

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.

Decrease in Compensated Absences	65,645	
Decrease in Interest Payable	507	
Total		66,152

Net Change in Net Position of Governmental Activities \$2,757,696

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget: Positive (Negative)
	Original	Final		
Revenues:				
Property and Other Local Taxes	\$9,689,037	\$10,981,150	\$10,981,150	\$0
Intergovernmental	15,193,596	16,141,115	16,141,115	0
Interest	10,500	4,372	4,372	0
Tuition and Fees	1,345,200	1,428,468	1,428,468	0
Rent	8,000	9,870	9,870	0
Extracurricular Activities	35,000	26,717	26,717	0
Gifts and Donations	1,500	700	700	0
Customer Sales and Services	45,000	80,330	80,330	0
Miscellaneous	42,700	122,249	122,249	0
<i>Total Revenues</i>	26,370,533	28,794,971	28,794,971	0
Expenditures:				
Current:				
Instruction:				
Regular	18,315,905	11,960,474	11,960,474	0
Special	1,235,447	2,434,465	2,434,465	0
Vocational	0	6,682	6,682	0
Other	120,870	3,964,012	3,964,012	0
Support Services:				
Pupils	1,158,891	1,203,926	1,203,925	1
Instructional Staff	650,379	519,036	519,036	0
Board of Education	68,328	61,752	61,752	0
Administration	2,315,054	1,995,370	1,995,368	2
Fiscal	863,059	745,289	745,289	0
Business	81,785	45,680	45,680	0
Operation and Maintenance of Plant	2,520,719	2,013,138	2,013,138	0
Pupil Transportation	1,011,765	1,015,980	1,015,980	0
Central	166,650	167,882	167,882	0
Operation of Non-Instructional Services	1,339	7,929	7,929	0
Extracurricular Activities	165,599	417,466	417,466	0
<i>Total Expenditures</i>	28,675,790	26,559,081	26,559,078	3
<i>Excess of Revenues Over (Under) Expenditures</i>	(2,305,257)	2,235,890	2,235,893	3
Other Financing Sources (Uses):				
Transfers In	0	222,307	222,307	0
Advances In	0	606	606	0
Insurance Recoveries	1,500	6,818	6,818	0
Transfers Out	(221,912)	(724,276)	(724,276)	0
Advances Out	0	(61,233)	(61,233)	0
<i>Total Other Financing Sources (Uses)</i>	(220,412)	(555,778)	(555,778)	0
<i>Net Change in Fund Balance</i>	(2,525,669)	1,680,112	1,680,115	3
<i>Fund Balance at Beginning of Year</i>	2,402,379	2,402,379	2,402,379	0
<i>Prior Year Encumbrances Appropriated</i>	123,290	123,290	123,290	0
<i>Fund Balance at End of Year</i>	\$0	\$4,205,781	\$4,205,784	\$3

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, 2014

	<u>Agency</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Investments	<u>\$120,119</u>
<i>Total Assets</i>	<u><u>\$120,119</u></u>
Liabilities:	
Current Liabilities:	
Due to Students	\$108,074
Undistributed Monies	<u>12,045</u>
<i>Total Liabilities</i>	<u><u>\$120,119</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, 2014

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 129 non-certified employees, 182 certificated full-time teaching personnel and 14 administrative employees who provide services to 2,862 students and other community members. The School District currently operates six instructional buildings, one administrative building, one maintenance building and one bus garage.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Based on the foregoing, the School District's reporting entity includes one component unit, the Chillicothe Education Foundation.

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

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

The following activities are included within the reporting entity:

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

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 1-DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

The School District is associated with two organizations, which are defined as jointly governed organizations. These organizations are the South Central Ohio Computer Association and Pickaway-Ross Career and Technology Center. These organizations are presented in note 17 of the notes to the basic financial statements.

Discretely Presented Component Unit

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

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation-Fund Accounting

Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, liabilities, and deferred inflows/outflows of resources is reported as fund balance. The following are the School District's major governmental funds:

General Fund

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

Debt Service Fund

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

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. 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.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. The School District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 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. Grants and entitlements not received within the available period and delinquent property taxes due at June 30, 2014, are recorded as deferred inflows of resources in the governmental funds and as revenue on the statement of activities.

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.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 2014, investments were limited to STAR Plus, STAROhio, Certificates of Deposit, and U.S. Government Agency Instrumentalities. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2014. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2014.

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 2014 amounted to \$4,272. Nonmajor Governmental Funds earned interest revenue of \$4,096. The School District also experienced an increase in fair value of investments of \$7,276, which was recognized in the General Fund.

Capital Assets and Depreciation

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

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

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

Interfund Assets/Liabilities

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

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. The School District reported no matured compensated absences payable at June 30, 2014.

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.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The government-wide statement of net position reports \$3,414,782 in restricted net position, none of which is restricted by enabling legislation.

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.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Deferred Loss on Refunding

The difference between the reacquisition price (funds required to refund the old debt) of the refunding notes and the bonds and the net carrying amount of the old debt, the deferred amount (loss) on refunding, is being amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt whichever is shorter and is presented as a deferred outflow of resources on the statement of net position. The School District presented no deferred loss on refunding at June 30, 2014.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 3-ACCOUNTABILITY

At June 30, 2014, the Public School Support, Public School Preschool, Miscellaneous State Grants, Title VI-B, Title I, and Improving Teacher Quality Nonmajor Special Revenue Funds had deficit fund balances of \$18,141, \$10,986, \$6,456, \$42,602, \$49,591, and \$15,406, 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. As part of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. This includes the entire Uniform School Supplies and Rotary Funds 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.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$2,030,616
Revenue and Other	
Financing Sources Accruals	112,399
Expenditures and Other	
Financing Uses Accruals	(410,838)
Encumbrances	(49,279)
(Excess) Deficit of Funds Combined with	
General Fund for Reporting Purposes	<u>(2,783)</u>
Budget Basis	<u>\$1,680,115</u>

NOTE 5-DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits in interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 5-DEPOSITS AND INVESTMENTS (Continued)

8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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

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

Deposits

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

As of June 30, 2014, the School District's bank balance of \$7,914,500 was either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 5-DEPOSITS AND INVESTMENTS (Continued)

Investments

As of June 30, 2014, the School District had the following investments and maturities.

Investment Type	Fair Value	Less than 1 Year	1-2 Years	3-5 Years
STAROhio	\$146,800	\$146,800	\$0	\$0
FFCB	99,244	0	0	99,244
FNMA	249,590	0	0	249,590
Total	\$495,634	\$146,800	\$0	\$348,834

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

Credit Risk. The School District's investments in FMNA and FFCB were rated AA+ by Standard & Poor's. Standard & Poor's has assigned STAROhio an AAAM money market rating. The School District's investment policy does not address credit risk beyond the requirements of the Ohio Revised Code.

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of total of each investment type held by the School District at June 30, 2014:

Investment Type	Fair Value	% of Total
STAROhio	\$146,800	29.62%
FFCB	99,244	20.02%
FNMA	249,590	50.36%
Total	\$495,634	100.00%

Component Unit

At fiscal year end, the carrying amount of the Chillicothe Education Foundation's deposits was \$27,366 and the bank balance was \$27,366. Federal depository insurance covered all of the bank balance.

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

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 5-DEPOSITS AND INVESTMENTS (Continued)

The Chillicothe Education Foundation's investments at June 30, 2014 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Percentage of Portfolio</u>
Stocks	\$120,929	<1 year	18.12%
Exchange Traded & Closed End Funds	19,663	<1 year	2.95%
Mutual Funds	526,910	<1 year	78.94%
Total	<u>\$667,502</u>		<u>100.00%</u>

NOTE 6-PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, 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 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, and are collected in 2014 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 2014 taxes were collected are:

	<u>2013 Second-Half Collections</u>		<u>2014 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$374,071,250	94.23%	\$362,971,120	93.71%
Public Utility	22,886,310	5.77%	24,381,210	6.29%
Total Assessed Value	<u>\$396,957,560</u>	<u>100.00%</u>	<u>\$387,352,330</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$29.18		\$36.95	

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 6-PROPERTY TAXES (Continued)

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, 2014, are available to finance fiscal year 2014 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, 2014. 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, 2014, was \$1,119,371 in the General Fund, \$187,227 in the Debt Service Fund and \$76,418 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, 2014, consisted of property taxes, accounts (rent, tuition and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables is as follows:

<i>Major Fund:</i>	
General	\$51,802
<i>Nonmajor Special Revenue Funds:</i>	
Public School Preschool	29,193
Miscellaneous State Grants	1,082
Title VI-B	143,377
Title I	330,705
Improving Teacher Quality	20,086
Miscellaneous Federal Grants	19,845
<i>Total Nonmajor Funds</i>	<u>544,288</u>
<i>Total All Funds</i>	<u><u>\$596,090</u></u>

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 8-CAPITAL ASSETS

Capital assets activity of the fiscal year ended June 30, 2014, was as follows:

	<u>Ending Balance 6/30/13*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/14</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$545,010	\$0	\$0	\$545,010
Total Capital Assets, Not Being Depreciated	<u>545,010</u>	<u>0</u>	<u>0</u>	<u>545,010</u>
Capital Assets Being Depreciated				
Land Improvements	1,024,500	471,463	0	1,495,963
Buildings and Improvements	50,041,714	303,185	0	50,344,899
Furniture and Equipment	5,039,672	316,513	(9,310)	5,346,875
Vehicles	1,790,836	107,159	(3,000)	1,894,995
Total Capital Assets, Being Depreciated	<u>57,896,722</u>	<u>1,198,320</u>	<u>(12,310)</u>	<u>59,082,732</u>
Less Accumulated Depreciation				
Land Improvements	(781,763)	(29,987)	0	(811,750)
Buildings and Improvements	(18,738,052)	(1,108,544)	0	(19,846,596)
Furniture and Equipment	(2,995,796)	(311,570)	8,251	(3,299,115)
Vehicles	(1,444,842)	(116,890)	1,750	(1,559,982)
Total Accumulated Depreciation	<u>(23,960,453)</u>	<u>(1,566,991)</u>	<u>10,001</u>	<u>(25,517,443)</u>
Total Capital Assets Being Depreciated, Net	<u>33,936,269</u>	<u>(368,671)</u>	<u>(2,309)</u>	<u>33,565,289</u>
Governmental Activities Capital Assets, Net	<u>\$34,481,279</u>	<u>(\$368,671)</u>	<u>(\$2,309)</u>	<u>\$34,110,299</u>

*As restated. See note 20 of the notes to the basic financial statements. In addition, the School District reviewed its capital asset records and made certain reclassifications among asset classes for more accurate classification presentation.

Depreciation expense was charged to the governmental functions as follows:

Instruction:	
Regular	\$1,300,645
Special	14,770
Other	1,493
Support Services:	
Pupils	7,018
Instructional Staff	1,634
Administration	1,264
Fiscal	472
Business	1,148
Operation and Maintenance of Plant	31,825
Pupil Transportation	108,235
Operation of Non-Instrumental Services	91,363
Extracurricular Activities	7,124
Total Depreciation Expense	<u>\$1,566,991</u>

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 2014, the School District contracted with Ohio Casualty Insurance/Liberty Mutual Insurance for liability, property, fleet, inland marine, and boiler and machinery insurance. Coverages provided are as follows:

<i>General Liability:</i>	
General Aggregate Limit	\$2,000,000
Each Occurrence Combined Single Limit	1,000,000
Medical Expense Limit (Any One Person)	15,000
<i>Employee Benefit Liability (\$1,000 Deductible):</i>	
Annual Policy Aggregate Limit	3,000,000
Each Wrongful Account Limit	1,000,000
<i>Auto Liability:</i>	
Per Accident Liability	1,000,000
<i>Stop Gap:</i>	
Each Accident	1,000,000
Disease Each Employee	1,000,000
Disease Policy Limit	1,000,000
<i>Property Insurance:</i>	
Building/Contents (\$2,500 Deductible)	
Including EDP, Inland Marine – Musical Instr.	75,852,333

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

<i>Fleet Insurance:</i>	
Combined Single Limit-Each Accident	\$1,000,000
Medical Payments – Per Person (Including Extended Medical)	5,000
Uninsured and Underinsured Motorist	
Bodily Injury – Combined Single Limit – Each Accident	1,000,000
Physical Damage	Actual Cash Value, Cost of
Comprehensive (\$500 Deductible)	Repair, or \$50,000, which is
Collision (\$500 Deductible)	less

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

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

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

NOTE 10-DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

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, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contributions to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$545,956, \$527,473, and \$592,836, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

NOTE 10-DEFINED BENEFIT PENSION PLANS (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased by 3 percent of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 10-DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers.

For the fiscal years ended June 30, 2014, 2013, and 2012, plan members were required to contribute 11 percent, 10 percent, and 10 percent, respectively, of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,388,809, \$1,424,555, and \$1,666,842, respectively; 83 percent has been contributed for fiscal year 2014 and 100 percent has been contributed for fiscal years 2013 and 2012. \$253,032 represents the unpaid contribution for fiscal year 2014 and is recorded as a liability within the respective funds.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, no members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11-POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

In addition to a cost-sharing, multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50 if they participated in one of SERS' health care plans.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 11-POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2014, 2013, and 2012, the actuarially required allocations were 0.76 percent, 0.74 percent, and 0.75 percent. For the School District, contributions for the years ended June 30, 2014, 2013, and 2012, were \$31,674, \$29,796, and \$35,010, respectively, which equaled the required contributions for each year.

Health Care Plan

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the fiscal years ending June 30, 2014, 2013, and 2012, the health care allocations were 0.14 percent, 0.16 percent, and 0.55 percent, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. 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 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions assigned to the Health Care Fund for the years ended June 30, 2014, 2013, and 2012 were \$63,526, \$55,942, and \$78,835, respectively.

The SERS Retirement Board establishes 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 upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

B. State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan; and a Combined Plan which is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

NOTE 11-POSTEMPLOYMENT BENEFITS (Continued)

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. 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.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to postemployment health care for the years ended June 30, 2014, 2013 and 2012. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the School District, these amounts equaled \$106,831, \$109,581, and \$128,219 for fiscal years 2014, 2013, and 2012, respectively; 83 percent has been contributed for fiscal year 2014 and 100 percent has been contributed for fiscal years 2013 and 2012.

NOTE 12-EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Insurance

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

C. 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.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 12-EMPLOYEE BENEFITS (Continued)

D. 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 2014, the School District did have employees that were eligible to take advantage of this benefit.

NOTE 13-LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2014 were as follows:

	Outstanding 6/30/13	Additions	Deductions	Outstanding 6/30/14	Amounts Due within One Year
<i>Governmental Activities:</i>					
General Obligation Bonds:					
2005 Construction General Obligation Obligation Bonds – Serial and Term 2-5.25%	\$1,845,000	\$0	\$0	\$1,845,000	\$0
2005 Construction Capital Appreciation Bonds 12.274-12.306%	510,000	0	250,000	260,000	260,000
Accretion of Capital Appreciation Bonds Premium	972,100	140,728	525,000	587,828	587,828
	115,757	0	77,170	38,587	0
2007 Refunding Obligation Bonds – Serial and Term 3.5-4.5%	26,070,000	0	160,000	25,910,000	180,000
Premium	958,412	0	119,800	838,612	0
2007 Construction Capital Appreciation Bonds 17.7712-17.8754%	320,000	0	0	320,000	0
Accretion of Capital Appreciation Bonds	345,057	93,345	0	438,402	0
2009 School Energy Conservation Improvement Term Bonds 0%	360,000	0	40,000	320,000	40,000
Total General Obligation Bonds	31,496,326	234,073	1,171,970	30,558,429	1,067,828
Capital Leases	372,265	0	100,580	271,685	105,103
Compensated Absences	2,303,714	2,137,632	2,203,277	2,238,069	68,873
Total Governmental Activities Long-Term Obligations	\$34,172,305	\$2,371,705	\$3,475,827	\$33,068,183	\$1,241,804

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 13-LONG-TERM OBLIGATIONS (Continued)

2005 Construction General Obligation Bonds – On July 1, 2004, general obligation bonds were issued for the retirement of the bond anticipation notes that were used for renovating and constructing school buildings in the amount of \$34,000,000. The bond issue included serial and term bonds (shown as general obligation bonds in the table above), and capital appreciation bonds, in the amounts of \$20,045,000, \$13,160,000, and \$795,000, respectively. During fiscal year 2007, a portion of the serial bonds were refunded with the 2007 issue, with the remaining to be paid from 2008 through 2015; the term bonds were refunded in their entirety with the 2007 issue; and the remaining capital appreciation bonds will be paid in 2015. The maturity of the capital appreciation bonds is \$2,450,000. For 2014, \$140,728 was accreted and \$525,000 of accretion was repaid for a total remaining bond value of \$847,828, which includes accretion of \$587,828. The bonds will be paid from the Debt Service Fund from tax revenue.

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 2014, \$93,345 was accreted for a total bond value of \$758,401, which includes accretion of \$438,401. The capital appreciation bonds will mature in fiscal years 2023 through 2025. The maturity of the bonds is \$5,715,000. The bonds will be paid from the Debt Service Fund from tax revenue.

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

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

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

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

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

Compensated absences payable will be paid from the funds in which the employees were paid, with the most significant being the General Fund. Capital leases will be repaid from the General Fund.

The School District’s overall legal debt margin was \$7,336,437 and the unvoted debt margin was \$387,352 at June 30, 2014.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 13-LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation debt at June 30, 2014 are as follows:

Fiscal Year Ending	Governmental Activities			
	2005 General Obligation Bonds		2007 General Obligation Bonds	
	Principal	Interest	Principal	Interest
2015	\$0	\$87,750	\$180,000	\$1,069,680
2016	900,000	67,500	200,000	1,062,080
2017	945,000	23,625	215,000	1,053,780
2018	0	0	1,365,000	1,022,180
2019	0	0	1,435,000	966,180
2020-2024	0	0	5,060,000	3,960,223
2025-2030	0	0	8,025,000	3,071,313
2031-2033	0	0	9,430,000	871,875
Totals	\$1,845,000	\$178,875	\$25,910,000	\$13,077,311

Fiscal Year Ending	General Obligation Bonds				
	2005 Capital Appreciation		2007 Capital Appreciation		2009 General Obligation Bond
	Principal	Interest	Principal	Interest	Principal
2015	\$260,000	\$640,000	\$0	\$0	\$40,000
2016	0	0	0	0	40,000
2017	0	0	0	0	40,000
2018	0	0	0	0	40,000
2019	0	0	0	0	40,000
2020-2024	0	0	230,000	3,580,000	120,000
2025	0	0	90,000	1,815,000	0
Totals	\$260,000	\$640,000	\$320,000	\$5,395,000	\$320,000

NOTE 14-CAPITAL LEASE

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

Capital assets acquired by this lease were initially capitalized in the statement of net position for governmental activities in the amount of \$515,083 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net position for governmental activities. Principal payments in fiscal year 2014 totaled \$100,580 and were paid from the General Fund.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 14-CAPITAL LEASE (Continued)

Principal and interest requirements to retire the capital leases at June 30, 2014 are as follows:

Year Ending June 30	Capital Leases
2015	\$114,972
2016	114,972
2017	57,486
Total Debt Payments	287,430
Less: Interest	(15,745)
Total Principal	<u>\$271,685</u>

NOTE 15-INTERFUND ACTIVITY

As of June 30, 2014, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payables
General Fund	\$61,233	\$0
<i>Nonmajor Funds:</i>		
Public School Support	0	25,253
Public School Preschool	0	992
Miscellaneous State Grants	0	4,965
Title IV-B	0	3,830
Title I	0	21,452
Improving Teacher Quality	0	2,523
Miscellaneous Federal Grants	0	2,218
<i>Total Nonmajor Funds</i>	<u>0</u>	<u>61,233</u>
Total All Funds	<u>\$61,233</u>	<u>\$61,233</u>

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

For the fiscal year ended June 30, 2014, the General Fund transferred \$500,000 to the Capital Projects Fund to set aside funds for future capital acquisitions and improvements.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 16-JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association Council of Governments-The School District is a participant in the South Central Ohio Computer Association Council of Governments (SCOCA COG) which is an information technology center. SCOCA COG is a council of governments providing information technology services to 58 public education entities, non-public education entities, and public libraries from 24 Ohio counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA COG consists of two representatives from each county elected by majority vote of all charter member school districts within each county, two treasurers elected by majority vote of all charter member school districts, and one representative from the fiscal agent. The School District paid SCOCA COG \$180,119 for services provided during the year. Financial information can be obtained from Sandra Benson, Chief Financial Officer, 175 Beaver Creek Road, Suite C, Piketon, Ohio 45661.

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

NOTE 17-SET-ASIDE CALCULATIONS/FUND BALANCE RESTRICTIONS

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

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

	Capital Acquisition	Bus Purchase
Set Aside Balance as of June 30, 2013	\$0	\$492
Current Year Set Aside Requirement	490,614	0
Current Year Qualifying Expenditures	(2,012,244)	492
Total	(\$1,521,630)	\$0
Balance Carried Forward to Fiscal Year 2015	\$0	\$0
Set-Aside Balance June 30, 2014	\$0	\$0

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, 2014.

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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, 2014.

Litigation

The School District is not currently party to legal proceedings.

NOTE 19-ENCUMBRANCES

At June 30, 2014, the School District had encumbrance commitments in governmental funds as follows:

<i>Major Fund</i>	
General	\$49,279
<i>Nonmajor Funds</i>	
Permanent Improvement	390,938
Food Service	4,255
Other Grants	1,123
District Managed Activities	77
Auxiliary Services	2,897
Miscellaneous State Grants	1,520
Title VI-B	360
Title I	15,834
Improving Teacher Quality	7,000
Miscellaneous Federal Grants	462
Total Nonmajor Funds	<u>424,466</u>
Total Encumbrances	<u>\$473,745</u>

NOTE 20-RESTATEMENT OF BEGINNING BALANCES

The School District lowered its capitalization threshold from \$5,000 to \$1,500 which resulted in the increase of net position as follows:

	<u>Governmental Activities</u>
Net Position, June 30, 2013	<u>\$4,778,705</u>
Restatement of Capital Assets	246,082
Net Position, Restated, June 30, 2013	<u>\$5,024,787</u>

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 21-FUND BALANCES

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

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<i>Nonspendable</i>				
Library Purposes	\$0	\$0	\$450,000	\$450,000
Total Nonspendable	0	0	450,000	450,000
<i>Restricted for</i>				
Capital Projects	0	0	927,344	927,344
Food Service	0	0	360,741	360,741
Other Purposes	0	0	5,918	5,918
Nonpublic Schools	0	0	51,843	51,843
Instruction	0	0	7,513	7,513
Debt Service	0	996,954	0	996,954
Library Purposes	0	0	55,616	55,616
Extracurricular Activities	0	0	7,764	7,764
Total Restricted	0	996,954	1,416,739	2,413,693
<i>Committed for</i>				
Capital Projects	0	0	500,000	500,000
Other Purposes	35,182	0	0	35,182
Total Committed	35,182	0	500,000	535,182
<i>Assigned to</i>				
Student and Staff Support	29,518	0	0	29,518
Other Purposes	3,102	0	0	3,102
Total Assigned	32,620	0	0	32,620
<i>Unassigned</i>	2,705,271	0	(143,182)	2,562,089
<i>Total Fund Balances</i>	<u>\$2,773,073</u>	<u>\$996,954</u>	<u>\$2,223,557</u>	<u>\$5,993,584</u>

Chillicothe City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 22-CHANGE IN ACCOUNTING PRINCIPLES

For 2014, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 66, “Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,” GASB Statement No. 69, “Government Combinations and Disposals of Government Operations,” and GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees.”

Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions,” and No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.”

This Statement amends Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,” by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.”

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, “Accounting for Operating Leases with Scheduled Rent Increases,” and result in guidance that is consistent with the requirements in Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,” respectively.

Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, and transfers of operations.

Statement No. 70 improves accounting and financial reporting by state and local governments that extend and receive non exchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The implementation of GASB Statements No. 66, 69, and 70 had no effect on the financial statements.

Chillicothe City School District
Ross County
Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2014

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Child Nutrition Cluster:</i>						
National School Lunch Program	3L60	10.555	\$ 883,586	\$ 86,525	\$ 883,586	\$ 86,525
School Breakfast Program	3L70	10.553	272,499	-	272,499	-
Total Nutrition Cluster			1,156,085	86,525	1,156,085	86,525
Fresh Fruit and Vegetable Program	3GG0	10.582	39,183	-	39,183	-
Total United States Department of Agriculture			1,195,268	86,525	1,195,268	86,525
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
<i>Title I, Part A Cluster:</i>						
Title I Grants to Local Educational Agencies	3M00	84.010	1,229,731	-	1,238,814	-
Total Title I, Part A Cluster			1,229,731	-	1,238,814	-
<i>Special Education Cluster (IDEA):</i>						
Special Education - Grants to States	3M20	84.027	690,875	-	697,236	-
Special Education - Preschool Grants	3C50	84.173	7,595	-	7,595	-
Total Special Education Cluster			698,470	-	704,831	-
Education for Homeless Children and Youth	3EJ0	84.196	61,254	-	62,058	-
Rural Education	3Y80	84.358	33,806	-	40,410	-
Improving Teacher Quality State Grants	3Y60	84.367	259,391	-	255,463	-
Total United States Department of Education			2,282,652	-	2,301,576	-
Total Federal Financial Assistance			\$ 3,477,920	\$ 86,525	\$ 3,496,844	\$ 86,525

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

**CHILlicoTHE CITY SCHOOL DISTRICT
ROSS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION

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

NOTE C – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS

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



Balestra, Harr & Scherer, CPAs, Inc.

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

www.bhscpas.com

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the Chillicothe City School District, Ross County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 19, 2014



Balestra, Harr & Scherer, CPAs, Inc.

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

www.bhscpas.com

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

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited Chillicothe City School District's (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Chillicothe City School District's major federal programs for the year ended June 30, 2014. The *Summary of Audit Results* in the accompanying schedule of findings identifies the School District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, 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, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 19, 2014

**Chillicothe City School District
Ross County**

**Schedule of Findings
OMB Circular A-133 Section §.505
June 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under §.510(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, CFDA #84.010 Special Education Cluster (IDEA): Special Education – Grants to States, CFDA #84.027 Special Education – Preschool Grants, CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**Chillicothe City School District
Ross County**

**Schedule of Findings
OMB Circular A-133 Section §.505
June 30, 2014**

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

None noted

3. FINDINGS FOR FEDERAL AWARDS

None noted

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Dave Yost • Auditor of State

CHILLICOTHE CITY SCHOOL DISTRICT

ROSS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 24, 2015**