



Dave Yost • Auditor of State



**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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HAMILTON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Forest Hills Local School District  
Hamilton County  
7946 Beechmont Avenue  
Cincinnati, Ohio 45255

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Forest Hills Local School District, Hamilton County, Ohio (the District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Forest Hills Local School District, Hamilton County, Ohio, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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

*Supplementary and Other Information*

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

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

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedules 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 January 13, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

January 13, 2017

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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This discussion and analysis provides key information from management highlighting the overall financial performance of the Forest Hills Local School District for the year ended June 30, 2016. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

**Financial Highlights**

Major financial highlights for fiscal year 2016 are listed below:

- ✓ The liabilities and deferred inflows of resources of the School District exceeded its assets and deferred outflows of resources at year-end by \$56,787,275. The deficit net position balance was driven by the recognition of \$113,628,610 in net pension liabilities.
- ✓ In total, net position increased by \$1,655,665.
- ✓ The School District had \$85,329,818 in expenses related to governmental activities; only \$7,050,298 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$79,935,185, made up primarily of property taxes and State Foundation payments, provided the funding for these programs.
- ✓ The General Fund balance decreased by \$2,412,964 from \$25,616,154 at June 30, 2015 to \$23,203,190 at June 30, 2016.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating. The statement of activities presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

The governmental activities of the School District include instruction, support services (administration, operation and maintenance of plant), and non-instructional services (extracurricular activities, food services) and self-insured risk management. The School District has no business-type activities.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
*Unaudited*

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**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. Some funds are required to be established by State law. Also, the School District may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs.

**Notes to the basic financial statements.** The notes provide additional information that is essential to understanding the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the General Fund budget.



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
*Unaudited*

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**A. Net position at year-end**

The following table presents a condensed summary of the School District's overall financial position at June 30, 2016 and 2015:

	<b>Governmental Activities</b>	
	<b>FY16</b>	<b>FY15</b>
Assets:		
Current and other assets	\$ 184,231,374	194,264,497
Capital assets	<u>40,803,965</u>	<u>25,537,218</u>
Total assets	<u>225,035,339</u>	<u>219,801,715</u>
Deferred outflows of resources	<u>11,770,716</u>	<u>7,774,444</u>
Liabilities:		
Long-term liabilities:		
Net pension liability	113,628,610	100,571,683
Other long-term amounts	114,826,450	118,638,530
Other liabilities	<u>14,016,385</u>	<u>10,677,229</u>
Total liabilities	<u>242,471,445</u>	<u>229,887,442</u>
Deferred inflows of resources	<u>51,121,885</u>	<u>56,131,657</u>
Net position:		
Net investment in capital assets	14,786,627	24,458,668
Restricted	14,949,715	3,063,174
Endowment:		
Expendable	598	795
Nonexpendable	718,295	718,295
Unrestricted (deficit)	<u>(87,242,510)</u>	<u>(86,683,872)</u>
Total net position	<u>\$ (56,787,275)</u>	<u>(58,442,940)</u>

During 2015, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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***Unaudited***

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As required by GASB Statement No. 68, the net pension liability equals the School District's proportionate share of each plan's collective:

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

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

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

In accordance with GASB Statement No. 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows. The School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

A significant portion of the School District's net position (\$14,786,627) reflects its net investment in capital assets. Capital assets are used to provide services to citizens and thus, these assets are not available for future spending. A portion of the School District's net position (\$14,949,715) represents resources that are subject to external restrictions on how they may be used. Unrestricted net position may be used to meet the School District's ongoing obligations to citizens and creditors.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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*Unaudited*

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At June 30, 2016, the School District experienced an increase in its total assets of approximately \$5.2 million, or only 2%. During the prior fiscal year, the School District issued \$103 million in Series 2015 general obligation school improvement bonds to finance facility improvement and new construction. The School District began work on these projects, resulting in decreases in cash and investments and increases in capital assets. As of June 30, 2016, the School District had \$91 million of bond proceeds yet to be spent.

Total liabilities, excluding net pension liability, decreased by about \$473,000, or less than 1%. The decrease was led by the payment of debt service on outstanding bonds during the fiscal year, offset somewhat by the increase in accounts payable, attributable to the increase in project-related activity during the fiscal year. The net pension liabilities, associated with the School District's participation in State-wide, cost-sharing, multiple employer pension plans, increased by approximately \$13 million, or 13%, primarily due to decreases in investment earnings in both pension plans during the measurement period.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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*Unaudited*

**B. Change in net position**

The following table presents a condensed summary of the School District's governmental activities during fiscal years 2016 and 2015 and the resulting change in net position:

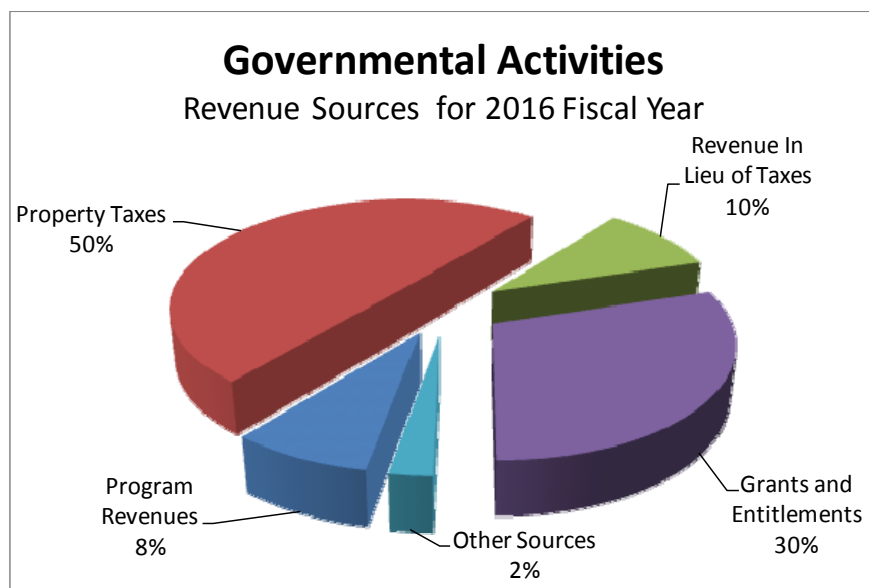
	<b>Governmental Activities</b>	
	<b>FY16</b>	<b>FY15</b>
<b>Revenues:</b>		
Program revenues:		
Charges for services and sales	\$ 3,418,469	3,345,936
Operating grants and contributions	3,619,433	3,575,312
Capital grants and contributions	12,396	5,968
Total program revenues	<u>7,050,298</u>	<u>6,927,216</u>
General revenues:		
Property taxes	43,268,961	49,307,521
Revenue in lieu of taxes	8,434,773	7,992,210
Grants and entitlements	26,064,496	25,694,342
Investment earnings	925,756	251,094
Miscellaneous	1,241,199	1,309,626
Total general revenues	<u>79,935,185</u>	<u>84,554,793</u>
<b>Total revenues</b>	<u>86,985,483</u>	<u>91,482,009</u>
<b>Expenses:</b>		
Instruction	47,483,830	45,799,478
Support services:		
Pupil and instructional staff	9,756,325	9,199,914
Board of Education, administration, fiscal, and business	5,781,823	6,805,622
Operation and maintenance of plant	7,976,455	6,645,086
Pupil transportation	3,785,784	3,772,677
Central	1,246,682	1,790,055
Non-instructional services	3,265,948	2,876,146
Interest and fiscal charges	3,964,773	2,434,551
Food services	2,068,198	2,004,000
<b>Total expenses</b>	<u>85,329,818</u>	<u>81,327,529</u>
Change in net position	1,655,665	10,154,480
Beginning net position	<u>(58,442,940)</u>	<u>(68,597,420)</u>
<b>Ending net position</b>	<u>\$ (56,787,275)</u>	<u>(58,442,940)</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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Of the total governmental activities revenues of \$86,985,483, \$7,050,298 (8%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, \$43,268,961 (54%) comes from property tax levies and \$26,064,496 (33%) is from state funding. Thus, the School District's operations are reliant upon its property tax levy and the state's foundation program.

Total revenue decreased by approximately \$4.5 million, or 5%. Property taxes accounted for approximately \$6 million of the decrease. This decrease is attributable to the \$6 million decrease in the amounts held by the County Auditor's Office available to advance to the School District. These amounts are driven by timing of payments by the County Auditor. The decrease was mitigated somewhat by increases in revenue in lieu of taxes, due to increases in tax increment financing property tax collections, grants and entitlements, due to fiscal years 2012 and 2013 Medicaid reimbursements being received from the State, and investment earnings, due to gains received on invested, unspent bond proceeds.



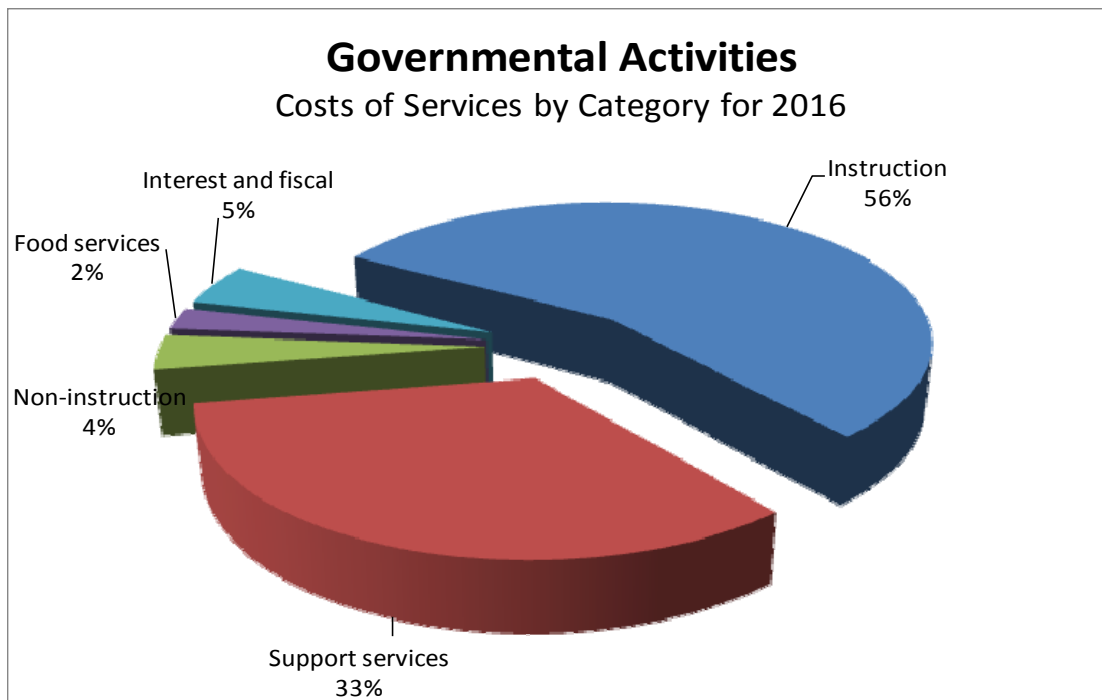
**Governmental Activities**

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 8% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$47,483,830 but program revenue contributed to fund 6% of those costs. Thus, general revenues of \$44,743,649 were used to support of remainder of the instruction costs. The School District's Food Service operation continues to generate enough program revenue to substantially cover daily operating costs. The School District's governmental activities net position increased by \$1,655,665.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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*Unaudited*

	<b>Governmental Activities</b>		<b>Revenues</b>	<b>Net Cost of Services</b>
	<b>Total Cost of Services</b>	<b>Program Revenue</b>	<b>as a % of Total Costs</b>	
Instruction	\$ 47,483,830	2,740,181	6%	44,743,649
Support services	28,547,069	278,598	1%	28,268,471
Non-instructional services	3,265,948	1,721,163	53%	1,544,785
Food services	2,068,198	2,310,356	112%	(242,158)
Interest and fiscal charges	<u>3,964,773</u>	-	0%	<u>3,964,773</u>
<b>Total</b>	<b>\$ <u>85,329,818</u></b>	<b><u>7,050,298</u></b>	<b><u>8%</u></b>	<b><u>78,279,520</u></b>

Fiscal year 2016 total expenses increased by approximately \$4 million, or 5%, from fiscal year 2015. Interest and fiscal charges accounted for \$1.5 million, as the School District made its final accreted interest payment on the Series 2003 bonds. Instruction expenses (regular and special) increased in the General Fund between fiscal years 2015 and 2016 mainly due to additional staffing to meet the needs of students and move substitute teacher costs to instruction expenses instead of administrative expenses.



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
*Unaudited*

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S GENERAL FUND**

**Governmental funds**

The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The School District has two major governmental funds: the General Fund and the Building Fund. Assets of those funds comprise \$162,018,609 (88%) of the total \$184,231,374 governmental funds' assets.

**General Fund.** Fund balance at June 30, 2016 was \$23,203,190, including \$19,147,557 of unassigned balance, which represents 26% of expenditures for fiscal year 2016. Fund balance decreased by \$2,412,964, which was a \$5.4 million decrease from the prior fiscal year's change in fund balance. The primary reason for the decrease was due to the aforementioned decrease in amounts of property taxes available for advance by the County Auditor's Office.

General Fund revenues for the past three years have been increasing at an average of 1.2% annually while General Fund expenditures have been relatively unchanged over the past three years. The following is an excerpt from the School District's General Fund Five Year Forecast (presented on the cash basis):

	Actual			Average Change
	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	
<i>Total Revenues</i>	75,091,876	76,605,038	76,891,950	1.2%
<i>Total Expenditures</i>	70,706,142	73,430,661	74,496,975	2.7%
<i>Excess of Revenues over (under) Expenditures</i>	4,385,734	3,174,377	2,394,975	-26.1%
Cash Balance July 1	8,625,752	13,011,486	16,185,863	37.6%
<i>Cash Balance June 30</i>	13,011,486	16,185,863	18,580,838	19.6%

**Building Fund.** The Building Fund was initiated during the prior fiscal year to account for the spending of the \$103 million Series 2015 school improvement bond proceeds. The Building Fund ended the fiscal year with a fund balance of \$86,146,615, as projects were underway during the fiscal year.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
*Unaudited*

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the School District's original and final budgets and actual results is included in the required supplementary information. During fiscal year 2016, the School District amended its General Fund budget with Hamilton County as changes occurred in School District revenues and expenditures.

Actual General Fund expenditures were \$3,420,965 (4.4%) lower than the final budget and \$2,337,455 (3.0%) lower than the original budget. The results are attributable to conservative budgeting and our continued cost containment efforts. Capital outlay budgetary figures included the unexpected purchase of administrative offices which had to be moved, due to the move of operations (Transportation, Custodial, Maintenance, and Food Service) to the current Administration Building. This expense led to the issuance of convertible bonds.

Actual General Fund revenues came in only 0.5% higher than budgeted.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2016, the School District had \$40,803,965 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 5 to the financial statements for more detail.

**Capital Assets at Year-End  
(Net of Depreciation)**

		<u>FY16</u>	<u>FY15</u>
Land	\$	1,694,507	1,010,802
Construction in progress		17,288,299	2,767,259
Land improvements		1,299,148	1,317,060
Buildings		12,941,697	12,662,430
Buildings improvements		4,302,127	4,837,775
Furniture and equipment		1,473,742	1,253,173
Vehicles		1,804,445	1,688,719
Total	\$	<u>40,803,965</u>	<u>25,537,218</u>

Net Capital Assets increased \$15,266,747 in fiscal year 2016. Major capital assets (construction projects) completed during fiscal year 2016 included (with approximate value at June 30, 2016):

- Anderson High School – Stadium Lighting Replacement \$149,147
- Turpin High School – Stadium Lighting Replacement \$76,799
- Ayer Elementary School – Roof Replacement \$29,889
- Nagel Middle School – Serving Line Renovations \$163,234



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
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**Unaudited**

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Major construction projects that were in progress during fiscal year 2016 included:

- Anderson High School – Auditorium Renovations
- Bond Issue – Planned Renovations/Replacements:
  - Anderson High School
  - Turpin High School
  - Nagel Middle School
  - Ayer Elementary School
  - Mercer Elementary School
  - Maddux Elementary School
  - Sherwood Elementary School
  - Summit Elementary School
  - Wilson Elementary School
  - Transportation / Operations
- Administration Building – Purchase / Renovation due to relocation of District Operations

**Debt**

A summary of long-term obligations is located in Note 11.

In 1996, the School District passed a 2.21 mil bond issue providing \$26.1 million dollars for a new middle school, a new high school auditorium, district technology improvements and other various improvements. These bonds were refunded in November 2003 with \$11,835,000 in Series 2003 refunding bonds and matured in December 2015.

In September 2013, the School District issued \$3,060,000 in Series 2013 refunding bonds to refund \$3,085,000 of the Series 2003 refunding bonds.

In February 2015, the School District issued \$103,000,000 in Series 2015 school improvement bonds to finance the costs of new construction, improvements, renovations, and additions to school facilities.

In March 2016, the School District issued \$1,200,000 in Series 2016 convertible bonds to refinance a short-term general obligation note that was issued to finance a portion of the costs for land and a building for replacement administrative offices, which were necessary due to the relocation of the School District's operations (Transportation, Custodial, Maintenance, and Food Service).

At June 30, 2016, the School District had \$104,920,000 in outstanding bonds, with \$4,045,000 due within one year. The School District's overall legal debt margin was \$11,598,239 with an unvoted debt margin of \$1,294,647 at June 30, 2016.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
*Unaudited*

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**ECONOMIC FACTORS**

- The taxpayers approved a 3.9 mil continuing operating levy in March 2012. This operating levy was projected to last three years. With careful and prudent planning and continued cost controls the School District has delayed this request for at least four additional years. The School District's current Five Year Financial Forecast (FY17-FY21) projects a deficit starting in FY21.
- The taxpayers approved a 4.45 mil (\$103 million) bond issue in November 2014. This issue significantly renovates eight schools and replaces one school. These renovations are expected to be completed by the end of 2018.
- The taxpayers approved a .5 mil Permanent Improvement levy in November 2014. These funds will be added to interest earnings to help fund ongoing capital needs throughout the School District.
- The School District secured strong Standard & Poor's (AA) and Moody's (Aa2) ratings due to moderate overall debt, experienced financial management, stable operating reserves, strong market value per capita and income levels, and strong electorate support.
- Enrollment figures impact all planning efforts of the School District including class size projections, staffing levels, facility usage/building capacities and many other long term planning efforts. Enrollment continues to be relatively stable with no significant changes projected.
- Commercial and residential property values have rebounded after several challenging years.
- With continued uncertainties regarding state funding, the School District will continue to focus on controlling costs and improving operational efficiencies to maximize the life of the operating levy passed on March 2012. Some of the areas of focus/consideration are shared services, outsourcing when appropriate, increasing electronic payment processing, reducing paper processing/handling, and self-funding employee benefits.
- With careful financial planning and continued support from the community, management is confident that the School District will continue to provide a high quality education while maintaining a cost effective budget.

**REQUESTS FOR ADDITIONAL INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Forest Hills Local School District, 7946 Beechmont Avenue, Cincinnati, Ohio 45255.

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and investments	\$ 124,771,183
Receivables:	
Taxes	48,878,329
Accounts	305,080
Intergovernmental	529,254
Revenue in lieu of taxes	8,956,353
Interest	188,280
Supplies inventory	352,257
Restricted cash and investments	250,638
Nondepreciable capital assets	18,982,806
Depreciable capital assets, net	<u>21,821,159</u>
<b>Total assets</b>	<b><u>225,035,339</u></b>
<b>Deferred Outflows of Resources:</b>	
Pension	<u>11,770,716</u>
<b>Liabilities:</b>	
Accounts payable	5,337,354
Accrued wages and benefits	6,900,523
Claims payable	388,082
Intergovernmental payable	1,054,240
Accrued interest payable	336,186
Noncurrent liabilities:	
Due within one year	4,491,053
Due within more than one year:	
Net pension liability	113,628,610
Other amounts due more than one year	<u>110,335,397</u>
<b>Total liabilities</b>	<b><u>242,471,445</u></b>
<b>Deferred Inflows of Resources:</b>	
Property taxes levied for next fiscal year	34,050,846
Revenue in lieu of taxes levied for next fiscal year	8,956,353
Pensions	<u>8,114,686</u>
<b>Total deferred inflows of resources</b>	<b><u>51,121,885</u></b>
<b>Net Position:</b>	
Net investment in capital assets	14,786,627
Restricted for:	
Debt service	12,436,368
Other purposes	2,513,347
Endowment:	
Expendable	598
Nonexpendable	718,295
Unrestricted (deficit)	<u>(87,242,510)</u>
<b>Total net position</b>	<b>\$ <u>(56,787,275)</u></b>

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**

Statement of Activities  
Year Ended June 30, 2016

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$ 35,401,337	943,388	101,736	-	\$ (34,356,213)
Special education	10,685,982	-	1,695,057	-	(8,990,925)
Other	1,396,511	-	-	-	(1,396,511)
Support services:					
Pupil	5,348,227	-	203,239	-	(5,144,988)
Instructional staff	4,408,098	-	57,447	-	(4,350,651)
Board of Education	40,715	-	-	-	(40,715)
Administration	3,902,783	-	5,516	-	(3,897,267)
Fiscal	1,552,416	-	-	-	(1,552,416)
Business	285,909	-	-	-	(285,909)
Operation and maintenance of plant	7,976,455	-	-	12,396	(7,964,059)
Pupil transportation	3,785,784	-	-	-	(3,785,784)
Central	1,246,682	-	-	-	(1,246,682)
Non-instructional services:					
Extracurricular activities	2,477,712	796,228	-	-	(1,681,484)
Community service	788,236	-	924,935	-	136,699
Food service	2,068,198	1,678,853	631,503	-	242,158
Interest on long-term debt	3,964,773	-	-	-	(3,964,773)
<b>Total Governmental Activities</b>	<b>\$ 85,329,818</b>	<b>3,418,469</b>	<b>3,619,433</b>	<b>12,396</b>	<b>(78,279,520)</b>

**General Revenues:**

Property taxes, levied for general purposes	36,126,687
Property taxes, levied for debt services	6,611,514
Property taxes, levied for capital projects	530,760
Revenue in lieu of taxes	8,434,773
Grants and entitlements not restricted to specific programs	26,064,496
Investment earnings	925,756
Miscellaneous	1,241,199
<b>Total general revenues</b>	<b>79,935,185</b>
Change in net position	1,655,665
Net position beginning of year	(58,442,940)
Net position end of year	\$ (56,787,275)

See accompanying notes to the basic financial statements.

# FOREST HILLS LOCAL SCHOOL DISTRICT

Balance Sheet  
 Governmental Funds  
 June 30, 2016

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and investments	\$ 19,056,591	\$ 91,127,366	\$ 14,587,226	\$ 124,771,183
Restricted cash and investments	250,638	-	-	250,638
Receivables:				
Taxes	41,829,444	-	7,048,885	48,878,329
Accounts	294,450	744	9,886	305,080
Accrued interest	33,333	154,947	-	188,280
Intergovernmental	22,334	-	506,920	529,254
Revenue in lieu of taxes	8,956,353	-	-	8,956,353
Materials and supplies inventory	292,409	-	59,848	352,257
<b>Total assets</b>	<u>\$ 70,735,552</u>	<u>\$ 91,283,057</u>	<u>\$ 22,212,765</u>	<u>\$ 184,231,374</u>
<b>Liabilities:</b>				
Accounts payable	\$ 235,835	\$ 5,052,453	\$ 49,066	\$ 5,337,354
Accrued wages and benefits	6,581,245	710	318,568	6,900,523
Intergovernmental payable	1,030,894	-	23,346	1,054,240
Claims payable	388,082	-	-	388,082
Compensated absences payable	281,865	-	-	281,865
<b>Total liabilities</b>	<u>8,517,921</u>	<u>5,053,163</u>	<u>390,980</u>	<u>13,962,064</u>
<b>Deferred Inflows of Resources:</b>				
Property taxes levied for next fiscal year	29,455,076	-	4,595,770	34,050,846
Revenue in lieu of taxes levied for next fiscal year	8,956,353	-	-	8,956,353
Unavailable revenue	603,012	83,279	390,230	1,076,521
<b>Total deferred inflows of resources</b>	<u>39,014,441</u>	<u>83,279</u>	<u>4,986,000</u>	<u>44,083,720</u>
<b>Fund Balances:</b>				
Nonspendable	292,409	-	778,143	1,070,552
Restricted	250,638	86,146,615	14,591,921	100,989,174
Committed	11,000	-	1,551,562	1,562,562
Assigned	3,501,586	-	-	3,501,586
Unassigned	19,147,557	-	(85,841)	19,061,716
<b>Total fund balances</b>	<u>23,203,190</u>	<u>86,146,615</u>	<u>16,835,785</u>	<u>126,185,590</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 70,735,552</u>	<u>\$ 91,283,057</u>	<u>\$ 22,212,765</u>	<u>\$ 184,231,374</u>

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2016

**Total Governmental Fund Balances** \$ 126,185,590

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. 40,803,965

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. 1,076,521

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(104,920,000)	
Compensated Absences	(2,297,353)	
Unamortized Premiums	(7,327,232)	
Accrued interest payable	<u>(336,186)</u>	
Total		(114,880,771)

The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows and inflows of resources are not reported in the governmental funds:

Deferred outflows - pension	11,770,716	
Deferred inflows - pension	(8,114,686)	
Net pension liability	<u>(113,628,610)</u>	
Total		<u>(109,972,580)</u>

Net Position of Governmental Activities \$ (56,787,275)

See accompanying notes to the basic financial statements.

## FOREST HILLS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2016

	General	Building	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 36,658,076	\$ -	\$ 7,241,049	\$ 43,899,125
Tuition and fees	943,388	-	-	943,388
Charges for services	-	-	1,678,853	1,678,853
Interest	74,608	666,000	154,121	894,729
Revenue in lieu of taxes	8,434,773	-	-	8,434,773
Intergovernmental	25,672,111	-	3,767,288	29,439,399
Other local revenues	965,287	711	1,085,759	2,051,757
<b>Total revenues</b>	<u>72,748,243</u>	<u>666,711</u>	<u>13,927,070</u>	<u>87,342,024</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	35,095,598	-	116,669	35,212,267
Special education	9,219,215	-	1,551,417	10,770,632
Other	1,395,905	-	1,954	1,397,859
Support services:				
Pupil	5,215,158	-	178,458	5,393,616
Instructional staff	4,341,552	-	69,365	4,410,917
Board of Education	40,625	-	-	40,625
Administration	5,467,178	3	4,279	5,471,460
Fiscal	1,528,684	-	8,171	1,536,855
Business	250,100	21,499	-	271,599
Operation and maintenance of plant	5,404,618	46,687	-	5,451,305
Pupil transportation	3,831,762	-	-	3,831,762
Central	1,298,557	-	-	1,298,557
Non-instructional services:				
Extracurricular activities	1,776,350	-	701,233	2,477,583
Community service	53,372	-	710,517	763,889
Food service	-	-	2,098,562	2,098,562
Capital outlay	2,433	15,208,291	1,983,471	17,194,195
Debt Service:				
Principal	-	-	3,040,000	3,040,000
Interest and fiscal charges	2,060	-	5,815,687	5,817,747
<b>Total expenditures</b>	<u>74,923,167</u>	<u>15,276,480</u>	<u>16,279,783</u>	<u>106,479,430</u>
Excess of revenues over (under) expenditures	<u>(2,174,924)</u>	<u>(14,609,769)</u>	<u>(2,352,713)</u>	<u>(19,137,406)</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	238,040	238,040
Transfers out	(238,040)	-	-	(238,040)
Sale of convertible bonds	-	-	1,200,000	1,200,000
<b>Total other financing sources (uses):</b>	<u>(238,040)</u>	<u>-</u>	<u>1,438,040</u>	<u>1,200,000</u>
Net change in fund balance	(2,412,964)	(14,609,769)	(914,673)	(17,937,406)
Fund balance, beginning of year	<u>25,616,154</u>	<u>100,756,384</u>	<u>17,750,458</u>	<u>144,122,996</u>
Fund balance, end of year	<u>\$ 23,203,190</u>	<u>\$ 86,146,615</u>	<u>\$ 16,835,785</u>	<u>\$ 126,185,590</u>

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 Year Ended June 30, 2016

<b>Net Change in Fund Balances - Total Governmental Funds</b>		\$ (17,937,406)
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.		
Capital asset additions		17,341,905
Depreciation expense		(2,068,100)
In the statement of activities, only the loss on the sale or disposal of capital assets is reported while only proceeds from the sale of assets are reported in the funds.		
		(7,058)
Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows in the funds.		
		(343,813)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		3,040,000
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 the governmental funds:		
Compensated absences		(63,555)
Interest on long-term debt		(2,131)
Amortization of bond premiums		269,755
Accreted interest (net)		1,585,350
The issuance of convertible bonds are recorded as other financing sources in the governmental funds, but are reported only on the statement of net position		
		(1,200,000)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		7,194,158
Except for amounts reported as deferred outflows or inflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities.		
		<u>(6,153,440)</u>
Change in Net Position of Governmental Activities		\$ <u>1,655,665</u>

See accompanying notes to the basic financial statements.



# FOREST HILLS LOCAL SCHOOL DISTRICT

## Statement of Net Position

### Fiduciary Funds

June 30, 2016

	<u>Private Purpose Trusts</u>	<u>Agency</u>
<b>Assets</b>		
Equity in pooled cash and investments	\$ 243,831	\$ 227,908
Accounts receivable	<u>25</u>	<u>-</u>
Total assets	<u>243,856</u>	<u>227,908</u>
<b>Liabilities</b>		
Due to student groups	<u>-</u>	<u>227,908</u>
Total liabilities	<u>-</u>	<u>\$ 227,908</u>
<b>Net Position</b>		
Held in trust	<u>\$ 243,856</u>	

See accompanying notes to the basic financial statements.

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Statement of Changes in Net Position

### Fiduciary Funds

Year Ended June 30, 2016

		<u>Private- Purpose Trusts</u>
<b>Additions:</b>		
Contributions	\$	<u>41,106</u>
Total additions		<u>41,106</u>
<b>Deductions:</b>		
Community gifts, awards and scholarships		<u>61,020</u>
Total deductions		<u>61,020</u>
Change in net position		(19,914)
Net position, beginning of year		<u>263,770</u>
Net position, end of year	\$	<u><u>243,856</u></u>

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The School District was originally chartered by the Ohio State Legislature. In 1853, state laws were enacted to create a local Board of Education. Today, the School District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.09 of the Ohio Revised Code. The School District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal guidelines. This Board controls the School District's instructional and support facilities to provide services to students and other community members.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. This includes general operations, food service, and student related activities of the School District.

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

The following activity is included within the reporting entity:

*Private Schools* - Within the School District boundaries, Immaculate Heart of Mary Elementary School, Miami Valley Christian Academy, Altercrest and Rainbow Child Care Center are operated as private schools. Current State legislation provides funding to these private schools, which is received and disbursed on behalf of the private school by the Treasurer of the School District, as directed by the private school. The administration of the State monies by the School District is reflected in a nonmajor special revenue fund for financial reporting purposes.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

**A. Reporting Entity – *continued***

The School District is associated with three jointly governed organizations. These organizations are the Hamilton Clermont Cooperative Association/Unified Purchasing Association, Great Oaks Institute of Technology and Career Development, and Southwest Ohio Organization of School Health. The organizations are presented in Note 14 to the basic financial statements.

**B. Basis of Presentation**

***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 interfund services provided and used are not eliminated in the consolidation.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

***Fund Financial Statements*** Fund financial statements report detailed information about the School District. The focus of governmental 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.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities and deferred inflows of resources are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

**C. Fund Accounting**

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental and fiduciary.

**Governmental funds** focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, liabilities, and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

**Building Fund** – The Building Fund is a capital project fund used to account for the capital expenditures of the Series 2015 general obligation school improvement bonds.

Additionally, the School District reports the following fund type:

**Fiduciary Funds** report on net position and changes in net position. The School District's fiduciary funds consist of private-purpose trust funds and agency funds. The School District's private-purpose trust funds account for scholarship programs for students. These assets are not available for the School District's use. Agency funds, used for student activities, are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

**D. Basis of Accounting**

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made.

The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, and grants.

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 unmatured principal and interest on general long-term debt which is recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Also, fiduciary funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

***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.

Non-exchange transactions, in which the School District receives value without directly giving 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 were levied. 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 non-exchange transactions must also be available before it can be recognized.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

**D. Basis of Accounting – *continued***

***Deferred Inflows of Resources.*** In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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. For the School District, deferred inflows of resources include property taxes, revenue in lieu of taxes, unavailable revenue and pension. Receivables for property taxes and revenue in lieu of taxes represent amounts that are measurable as of June 30, 2016, but are intended to finance 2017 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund financial statements and represents receivables that will not be collected within the available period (sixty days after fiscal year-end). Deferred inflows of resources from pension are reported on the government-wide statement of net position (see Note 6).

***Deferred Outflows of Resources.*** In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension (see Note 6).

**E. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in several bank accounts. Monies for all funds are maintained in these accounts or temporarily used to purchase short-term investments. 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 2016, the School District's investments were comprised of State Treasury Assets Reserve of Ohio (STAR Ohio), money markets, U.S. Treasuries, negotiable certificates of deposit, commercial paper, and U.S. agency securities. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at the net asset value per share provided by STAR Ohio on an amortized cost basis at June 30, 2016, which approximates fair value.

For fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

**E. Cash and Cash Equivalents – *continued***

GASB Statement No. 72, “*Fair Value Measurement and Application*” addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there were no effect on beginning net position/fund balance.

The Building Fund, Food Service Fund, Bond Retirement Fund, Permanent Improvement Fund and the Shanahan Scholarship Fund accrue investment earnings. The Building Fund accrues to the Building Fund. The Shanahan Scholarship Fund accrued to the Shanahan Scholarship Fund. The Bond Retirement Fund accrues to the Permanent Improvement Fund. All other interest accrues to the Permanent Improvement, Food Service and Shanahan Scholarship Funds.

**F. Inventory**

All inventories are valued at cost determined on a first-in, first-out basis. Inventory in governmental funds are recorded as expenditures in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**G. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements but are not reported in the governmental fund financial statements. The School District defines capital assets as those with an individual cost of more than \$2,500 and an estimated useful life in excess of five year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

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

Buildings	50 years
Land improvements	15 years
Building improvements	20 - 25 years
Equipment and furniture	7-20 years
Vehicles	12 -15 years



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

**H. Interfund Balances**

On the fund financials, receivables and payable resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the governmental activities column in the statement of net position. There were no outstanding interfund loans as of June 30, 2016.

**I. Compensated Absences**

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

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements.

**J. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

**K. Pensions**

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

**L. Fund Balances**

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 a spendable form, or legally or contractually required to be maintained intact. The “not in a spendable form” criterion includes items that are not expected to be converted to cash.

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

***Committed*** – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District 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. Assigned amounts in the general fund represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated.

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

The School District 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.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

**M. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A corresponding fund balance restriction has also been established based upon constraints placed upon the balance by state statutes.

**N. Net Position**

Net position represents the balance between assets and deferred outflows of resources, reduced by liabilities and deferred inflows 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 improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, donors, grantors or laws or regulations of other governments.

Restricted net position includes an endowment from a donor which is permanently restricted and reported as nonexpendable as well as earnings on the original gift that are restricted to specific purposes and thus, reported as expendable.

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

**O. Estimates**

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

**2. 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 has identified as not required for use within the current two 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.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**2. DEPOSITS AND INVESTMENTS—*continued***

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, 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 are permitted to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal home loan mortgage corporation, and government national mortgage association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided 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. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures":

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**2. DEPOSITS AND INVESTMENTS—*continued***

Deposits

*Custodial Credit Risk*

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. The School District does not have a custodial credit risk policy. At year-end, \$22,138,297 of the School District's bank balance of \$22,638,297 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Investments

The School District's investments at June 30, 2016 are summarized as follows:

	Balance at 6/30/16	Average Maturity (Years)	Concentration of Credit Risk
STAR Ohio	\$ 383,619	n/a	0.37%
U.S. Money Market Funds	492,924	n/a	0.47%
U.S. Treasury Notes	1,253,972	1.43	1.21%
Negotiable CDs	6,054,051	1.22	5.83%
Commerical Paper	14,943,150	0.45	14.39%
FHLB	31,428,321	1.01	30.25%
FNMA	7,987,897	1.86	7.69%
FHLMC	16,579,509	1.72	15.96%
FFCB	24,753,945	0.82	23.83%
	<u>\$ 103,877,388</u>		<u>100.00%</u>

*Credit Risk*

It is the School District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The School District's investments the U.S. Government Agency securities were rated AA+ by Standard & Poor's and Aaa by Moody's. The commercial paper securities were rated A1+ by Standard & Poor's and P-1 by Moody's. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a failure of a counter party, 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. The School District's investment securities are registered in the name of the School District.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

**2. DEPOSITS AND INVESTMENTS—continued**

*Concentration of Credit Risk*

The School District's policy places no limit on the amount it may invest in any one issuer.

*Interest Rate Risk*

In accordance with the investment policy, the School District manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to five years.

Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The School District has the following recurring fair value measurements as of June 30, 2016:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by Fair Value Level</u>	6/30/16			
Negotiable CDs	\$ 6,054,051	\$ -	\$ 6,054,051	\$ -
Debt Securities				
U.S. Treasury Notes	1,253,972	1,253,972	-	-
Commerical Paper	14,943,150	-	14,943,150	-
U.S. Agency Obligations	80,749,672	-	80,749,672	-
Total Investments by Fair Value Level	<u>\$ 103,000,845</u>	<u>\$ 1,253,972</u>	<u>\$ 101,746,873</u>	<u>\$ -</u>

Debt securities classified in Level 1 of the fair value hierarchy are valued using quoted market prices. Negotiable CD's and debt securities classified in Level 2 of the fair value hierarchy are valued using pricing sources as provided by the investment managers.

**3. 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 distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of the prior January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**3. PROPERTY TAXES—continued**

Public utility property tax revenue received in calendar year 2016 represent collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in calendar year 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from the Hamilton County Auditor, who 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, 2016 are available to finance fiscal year 2016 operations.

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes, which became measurable as of June 30, 2016. 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, 2016, was \$11,800,000 in the General Fund, \$2,190,000 in the Debt Service Fund, and \$170,000 in the Permanent Improvement Fund.

The assessed values upon which fiscal year 2016 taxes were collected are:

	<u>2015 Second- Half Collections</u>		<u>2016 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 1,266,937,920	97.68%	1,263,446,510	97.59%
Public Utility Tangible Personal Property	<u>30,056,810</u>	2.32%	<u>31,200,590</u>	2.41%
Total Assessed Value	\$ <u>1,296,994,730</u>	100.00%	<u>1,294,647,100</u>	100.00%
 Tax rate per \$1,000 of assessed valuation		 \$70.50		 \$70.50

**4. INTERFUND TRANSACTIONS**

Interfund transactions at June 30, 2016 consisted of the following:

		<u>Transfers</u>	
		<u>In</u>	<u>Out</u>
General Fund	\$	-	238,040
Other Governmental Funds		<u>238,040</u>	<u>-</u>
Total	\$	<u>238,040</u>	<u>238,040</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

**4. INTERFUND TRANSACTIONS—continued**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**5. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance 7/1/15	Additions	Disposals	Balance 6/30/16
<b>Governmental Activities</b>				
<b>Nondepreciable:</b>				
Land	\$ 1,010,802	683,705 {1}	-	1,694,507
Construction in progress	2,767,259	15,230,452	(709,412)	17,288,299
Subtotal	<u>3,778,061</u>	<u>15,914,157</u>	<u>(709,412)</u>	<u>18,982,806</u>
<b>Depreciable:</b>				
Land improvements	4,732,746	225,948	-	4,958,694
Buildings	30,731,692	1,550,000	(683,705) {1}	31,597,987
Building improvements	18,484,616	193,124	-	18,677,740
Equipment and furniture	3,379,688	460,754	(68,672)	3,771,770
Vehicles	5,118,918	391,039	(209,380)	5,300,577
Subtotal	<u>62,447,660</u>	<u>2,820,865</u>	<u>(961,757)</u>	<u>64,306,768</u>
Totals at historical cost	<u>66,225,721</u>	<u>18,735,022</u>	<u>(1,671,169)</u>	<u>83,289,574</u>
Less accumulated depreciation:				
Land improvements	3,415,686	243,860	-	3,659,546
Buildings	18,069,262	587,028	-	18,656,290
Building improvements	13,646,841	728,772	-	14,375,613
Equipment and furniture	2,126,515	233,127	(61,614)	2,298,028
Vehicles	3,430,199	275,313	(209,380)	3,496,132
Total accumulated depreciation	<u>40,688,503</u>	<u>2,068,100</u>	<u>(270,994)</u>	<u>42,485,609</u>
Capital assets, net	<u>\$ 25,537,218</u>	<u>16,666,922</u>	<u>(1,400,175)</u>	<u>40,803,965</u>

{1} - During fiscal year 2016, certain amounts within the buildings category were reclassified to the land category.



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**5. CAPITAL ASSETS—*continued***

Depreciation expense was charged to functions as follows:

Instruction:	
Regular	\$ 1,150,387
Special education	44,652
Other	1,543
Support services:	
Pupil	4,187
Instructional staff	68,305
Administration	75,089
Fiscal	1,670
Business	775
Operation and maintenance of plant	41,202
Pupil transportation	258,744
Central	1,193
Community service	20,764
Extracurricular activities	277,990
Food service	<u>121,599</u>
Total depreciation expense	\$ <u>2,068,100</u>

**6. PENSION PLANS**

***Net Pension Liability***

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

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

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**6. PENSION PLANS—*continued***

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

***Plan Description - School Employees Retirement System (SERS)***

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

Age and service requirements for retirement are as follows:

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

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

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**6. PENSION PLANS—*continued***

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

**Funding Policy** – Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14%.

The School District's contractually required contribution to SERS was \$1,711,465 for fiscal year 2016. Of this amount, \$171,204 is reported as an intergovernmental payable.

**Plan Description - State Teachers Retirement System (STRS)**

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with 5 years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**6. PENSION PLANS—*continued***

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11% of the 12% member rate goes to the DC Plan and 1% goes the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with 5 years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

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

***Funding Policy*** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased 1% July 1, 2014, and will be increased 1% each year until it reaches 14% on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13% of their annual covered salary. The School District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was approximately \$5,482,693 for fiscal year 2016. Of this amount, \$883,036 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources for Pensions***

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
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**6. PENSION PLANS—continued**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$19,206,488	\$94,422,122	\$113,628,610
Proportion of the Net Pension Liability	0.3365959%	0.34165020%	
Change in Proportion	-0.0029371%	-0.00117976%	
Pension Expense	\$1,858,270	\$4,295,170	\$6,153,440

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 270,029	\$ 4,306,529	\$ 4,576,558
School District's contributions subsequent to the measurement date	<u>1,711,465</u>	<u>5,482,693</u>	<u>7,194,158</u>
Total Deferred Outflows of Resources	<u>\$ 1,981,494</u>	<u>\$ 9,789,222</u>	<u>\$ 11,770,716</u>

<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 941,915	\$ 6,830,552	\$ 7,772,467
Change in School District's proportionate share	<u>112,653</u>	<u>229,566</u>	<u>342,219</u>
Total Deferred Inflows of Resources	<u>\$ 1,054,568</u>	<u>\$ 7,060,118</u>	<u>\$ 8,114,686</u>

\$7,194,158 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ (368,671)	\$ (1,602,418)	\$ (1,971,089)
2018	(368,671)	(1,602,418)	(1,971,089)
2019	(363,883)	(1,602,419)	(1,966,302)
2020	<u>316,686</u>	<u>2,053,666</u>	<u>2,370,352</u>
	<u>\$ (784,539)</u>	<u>\$ (2,753,589)</u>	<u>\$ (3,538,128)</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
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**6. PENSION PLANS—*continued***

***Actuarial Assumptions - SERS***

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25%
Future Salary Increases, including Inflation	4.00% to 22.00%
COLA or Ad Hoc COLA	3%
Investment Rate of Return	7.75% net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**6. PENSION PLANS—continued**

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
U.S. Stocks	22.50	5.00
Non-U.S. Stock	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Estate	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$26,632,498	\$19,206,488	\$12,953,176

**Changes Between Measurement Date and Report Date**

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75% to 7.5%. Although the exact amount of these changes is not known, the impact to the School District’s net pension liability is expected to be significant.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**6. PENSION PLANS—continued**

**Actuarial Assumptions - STRS**

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases	2.75% at age 70 to 12.25% at age 20
Investment Rate of Return	7.75% net of investment expenses
COLA	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1, 2013 or later, 2% COLA paid on fifth anniversary of retirement date.

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

**Discount Rate** – The discount rate used to measure the total pension liability was 7.75% as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**6. PENSION PLANS—continued**

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$131,159,450	\$94,422,122	\$63,355,234

**Social Security System**

All employees not covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2016, one of the members of the Board of Education has elected social security. The Board's liability is 6.2% of wages paid.

**7. POSTEMPLOYMENT BENEFITS**

**School Employees Retirement System**

**Health Care Plan** – Sections 3309.375 and 3309.69 of the Ohio Revised Code 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' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder for the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute, no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for health care surcharge. For fiscal year 2016, this amount was \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal year 2016, the ESC's surcharge obligation was \$171,204.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**7. POSTEMPLOYMENT BENEFITS—*continued***

The School District's contributions assigned to health care for the fiscal years June 30, 2016, 2015 and 2014 were \$0, \$99,000 and \$17,000, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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 on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

***State Teachers Retirement System***

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

*Funding Policy* – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal year ended June 30, 2014 was \$352,000.

**8. RISK MANAGEMENT**

The School District maintains comprehensive insurance with private carriers for real property, building contents, vehicles and general liability insurance. Vehicle policies include liability coverage for bodily injury and property damage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

The School District provides medical, prescription drug, vision, dental, life and other group insurance coverage through its participation in the Southwest Ohio Organization of School Health (SWOOSH) consortium (see Note 14).

The School District self-insures its workers' compensation costs. Expenses for claims are recorded on the current basis based on an actuarially determined charge per employee. The School District accounts for the activities of this program in the General Fund in accordance with GASB Statement No. 10.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**8. RISK MANAGEMENT—*continued***

A summary of the changes in the self-insurance workers' compensation claims liability during fiscal years 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Claims liability at July 1	\$ 354,511	\$ 237,787
Claims incurred	164,906	275,438
Claims paid	<u>(131,335)</u>	<u>(158,714)</u>
Claims liability at June 30	<u>\$ 388,082</u>	<u>\$ 354,511</u>

**9. EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn one to twenty-five days of vacation per fiscal year, depending upon length of service. The Treasurer can earn up to thirty days. 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 maximum of 275 days for teachers and administrators and 260 days for classified employees. Upon retirement of certified employees, payment is made for one-half of accrued, but unused sick leave, however, this amount is reduced to only twenty five percent if they do not leave when first eligible.

**10. SHORT-TERM OBLIGATIONS**

In December 2015, the School District issued \$1.2 million in general obligation notes to finance a portion of the purchase of land and building for a new administrative building. The notes were issued with an interest rate of 0.6% and matured on March 30, 2016.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

**11. LONG-TERM OBLIGATIONS**

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Principal Outstanding 7/1/15	Additions	Reductions	Principal Outstanding 6/30/16	Amounts Due in One Year
<b>Governmental Activities:</b>					
General obligation bonds	\$ 106,760,000	\$ 1,200,000	\$ (3,040,000)	\$ 104,920,000	\$ 4,045,000
Add issuance premium	7,596,987	-	(269,755)	7,327,232	-
Accreted interest	1,585,350	119,650	(1,705,000)	-	-
Compensated absences	2,696,193	504,464	(621,439)	2,579,218	446,053
Net pension liability:					
STRS	83,388,111	11,034,011	-	94,422,122	-
SERS	17,183,572	2,022,916	-	19,206,488	-
Total	<u>\$ 219,210,213</u>	<u>\$ 14,881,041</u>	<u>\$ (5,636,194)</u>	<u>\$ 228,455,060</u>	<u>\$ 4,491,053</u>

**General Obligation Bonds**

On December 1, 2003, the School District issued \$11,835,000 of Series 2003 general obligation refunding bonds to refund the Series 1997 general obligation bonds. A portion of the Series 2003 was refunded as explained below. The remaining outstanding balance matured on December 1, 2015.

On September 24, 2013, the School District issued \$3,060,000 of Series 2013 general obligation refunding bonds to refund \$3,085,000 of the Series 2003 bonds scheduled to mature December 1, 2016 thru 2020. The Series 2013 bonds bear interest rates of 1.7% to 4.0% and mature on December 1, 2018.

On February 5, 2015, the School District issued \$103,000,000 of Series 2015 general obligation school improvement bonds to finance the costs of new construction, improvements, renovations, and additions to school facilities. The Series 2015 bond bear interest rates of 1.5% to 5.0% and mature on December 1, 2046.

**Convertible Bonds**

On March 29, 2016, the School District issued \$1,200,000 of Series 2016 convertible bonds to refinance the short-term general obligation notes that were issued to finance the purchase of land and building for replacement administrative offices. The Series 2016 bonds bear interest rates of 2.88% to 4.43% and mature on December 1, 2031.

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$11,598,239 with an unvoted debt margin of \$1,294,647 at June 30, 2016.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**11. LONG-TERM OBLIGATIONS—*continued***

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 4,045,000	\$ 3,987,331	\$ 8,032,331
2018	1,895,000	3,909,741	5,804,741
2019	2,185,000	3,859,031	6,044,031
2020	2,005,000	3,824,022	5,829,022
2021	2,035,000	3,787,900	5,822,900
2022-2026	11,805,000	17,892,150	29,697,150
2027-2031	14,295,000	15,337,400	29,632,400
2032-2036	16,845,000	12,383,066	29,228,066
2037-2041	19,895,000	9,173,720	29,068,720
2042-2046	24,310,000	4,532,075	28,842,075
2047	5,605,000	140,125	5,745,125
Total	<u>\$ 104,920,000</u>	<u>\$ 78,826,561</u>	<u>\$ 183,746,561</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

**12. 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 fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Building	Other Governmental Funds	Total Governmental Funds
<b><i>Nonspendable</i></b>				
Inventory	\$ 292,409	\$ -	\$ 59,848	\$ 352,257
Scholarships	-	-	718,295	718,295
<b><i>Total Nonspendable</i></b>	<b><u>292,409</u></b>	<b><u>-</u></b>	<b><u>778,143</u></b>	<b><u>1,070,552</u></b>
<b><i>Restricted for</i></b>				
Food Service Operations	-	-	1,251,857	1,251,857
Athletics	-	-	387,227	387,227
Auxilliary Schools	-	-	220,251	220,251
Federal Grant Programs	-	-	1,466	1,466
Other Purposes	250,638	-	45,543	296,181
Debt Service Payments	-	-	12,685,577	12,685,577
Capital Improvements	-	86,146,615	-	86,146,615
<b><i>Total Restricted</i></b>	<b><u>250,638</u></b>	<b><u>86,146,615</u></b>	<b><u>14,591,921</u></b>	<b><u>100,989,174</u></b>
<b><i>Committed to</i></b>				
Underground Storage Tanks	11,000	-	-	11,000
Capital Improvements	-	-	1,551,562	1,551,562
<b><i>Total Committed</i></b>	<b><u>11,000</u></b>	<b><u>-</u></b>	<b><u>1,551,562</u></b>	<b><u>1,562,562</u></b>
<b><i>Assigned to</i></b>				
Budget Resource	2,703,474	-	-	2,703,474
Encumbrances	510,068	-	-	510,068
Other Purposes	288,044	-	-	288,044
<b><i>Total Assigned</i></b>	<b><u>3,501,586</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>3,501,586</u></b>
<b><i>Unassigned (Deficit)</i></b>	<b><u>19,147,557</u></b>	<b><u>-</u></b>	<b><u>(85,841)</u></b>	<b><u>19,061,716</u></b>
<b><i>Total Fund Balance</i></b>	<b><u>\$ 23,203,190</u></b>	<b><u>\$ 86,146,615</u></b>	<b><u>\$ 16,835,785</u></b>	<b><u>\$ 126,185,590</u></b>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**12. FUND BALANCES—continued**

At June 30, 2016, the following funds had deficit fund balances:

Other Governmental Funds:	
IDEA, Part B Fund	\$50,624
Title I Fund	32,497
Improving Teacher Quality Grant Fund	2,720

The deficits were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

**13. OPERATING LEASES**

The School District leases various equipment and modular classrooms under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases totaled \$160,792 for the year ended June 30, 2016. The future minimum lease payments under the leases as of June 30, 2016 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2017	\$ 170,925
2018	159,200
2019	32,340
2020	32,340
2021	16,170
	<u>\$ 410,975</u>

**14. JOINTLY GOVERNED ORGANIZATIONS**

**The Hamilton Clermont Cooperative Association/Unified Purchasing Association**

The Hamilton Clermont Cooperative Association/Unified Purchasing Association (H/CCA) is a jointly governed organization among a two-county consortium of school districts. H/CCA is an association of public districts in a geographic area determined by the Ohio Department of Education. 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 districts. The Board of H/CCA consists of one representative from each of the participating members. The School District paid approximately \$187,000 for services provided during the fiscal year.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**14. JOINTLY GOVERNED ORGANIZATIONS—*continued***

The Unified Purchasing Cooperative was organized under the Hamilton Clermont Cooperative Association to benefit member districts with a more economically sound purchasing mechanism for general school, office and cafeteria supplies. The Unified Purchasing Cooperative organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue, Cincinnati, Ohio 45231.

**The Great Oaks Institute of Technology and Career Development**

The Great Oaks Institute of Technology and Career Development, a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school district's elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. Great Oaks was formed for the purpose of providing vocational education opportunities to the students of the member school districts, which includes the students of the School District. The School District has no ongoing financial interest in nor responsibility for Great Oaks. To obtain financial information, write to Great Oaks at 3254 East Kemper Road, Cincinnati, Ohio 45241.

**Southwest Ohio Organization of School Health**

The School District is a participant in the Southwest Ohio Organization of School Health (SWOOSH) consortium. SWOOSH is a health and wellness consortium for school districts and government agencies, providing medical, prescription drug, vision, dental, life and/or other group insurance coverage. Each district has its own plan design, individual rates for plans based on performance and wellness plans geared toward each district's participants. Currently, SWOOSH includes eight school districts and 3,800 enrolled employees. SWOOSH is governed by a Board of Directors comprised of the Superintendent or a designee from each district. The Board exercises total control over the operations of SWOOSH including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board.

**15. CONTINGENCIES**

**Federal and State Funding**

The School District received financial assistance from Federal and state agencies in the form of grants. The expenditures of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**15. CONTINGENCIES—continued**

**School Foundation**

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

**Litigation**

The School District is party to legal proceedings. The School District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**16. REQUIRED SET-ASIDES**

The School District is required by State Statute to annually set aside in the general fund an amount based on the 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. Although no longer required by state statute, a budget stabilization reserve may still be set aside at the discretion of the School District.

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

	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside reserve balance June 30, 2015	\$ -	\$ 250,638
Current year set-aside requirement	1,240,162	-
Current year qualifying expenditures	<u>(1,940,382)</u>	<u>-</u>
Total	<u>(700,220)</u>	<u>250,638</u>
Balance carried forward to FY2017	<u>\$ -</u>	<u>\$ 250,638</u>
Set-aside reserve balance June 30, 2016	<u>\$ -</u>	<u>\$ 250,638</u>

The School District had qualifying disbursements during the year that reduced the set aside amount for capital and maintenance to below zero.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**17. CONTRACTUAL COMMITMENTS**

**Construction Contracts**

As of June 30, 2016, the School District had entered into various construction contracts for renovations and improvements under which it had a remaining unperformed and unpaid total commitment of approximately \$72,000 in the General Fund, \$31,253,000 in the Building Fund, and \$258,000 in Other Governmental Funds.

**Encumbrances**

The School District utilizes encumbrance accounting to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At June 30, 2016, the amount of encumbrances expected to be honored upon performance by the respective vendors in the next fiscal year were as follows:

General Fund	\$	614,460
Building Fund		40,032,120
Other Governmental Funds		<u>422,443</u>
	\$	<u><u>41,069,023</u></u>

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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## FOREST HILLS LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund  
Balance - Budget and Actual (Non-GAAP Budgetary Basis)

General Fund

Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues:</b>				
Taxes	41,459,631	41,459,631	41,748,076	288,445
Tuition and fees	869,000	869,000	577,228	(291,772)
Interest	70,000	70,000	46,757	(23,243)
Intergovernmental	25,027,186	25,027,186	25,581,213	554,027
Revenue in lieu of taxes	8,556,413	8,556,413	8,434,773	(121,640)
Other local revenues	428,000	428,000	412,600	(15,400)
<b>Total revenues</b>	<u>76,410,230</u>	<u>76,410,230</u>	<u>76,800,647</u>	<u>390,417</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	34,901,012	34,796,297	34,527,827	268,470
Special education	9,443,494	9,711,259	9,346,881	364,378
Other instruction	2,026,465	1,565,230	1,452,340	112,890
Support services:				
Pupil	5,117,691	5,389,151	5,209,025	180,126
Instructional staff	4,596,631	4,631,730	4,355,330	276,400
Board of Education	63,160	64,292	48,690	15,602
Administration	5,554,033	5,397,145	5,214,409	182,736
Fiscal	1,584,510	1,611,992	1,545,758	66,234
Business	254,898	262,686	254,712	7,974
Operation and maintenance of plant	5,769,220	5,825,707	5,605,871	219,836
Pupil transportation	4,358,887	4,224,111	3,903,975	320,136
Central	1,677,361	1,224,163	1,162,952	61,211
Non-instructional services:				
Community services	68,170	68,722	46,238	22,484
Extracurricular activities	1,613,920	1,903,456	1,780,968	122,488
Capital outlay	-	1,434,961	234,961	1,200,000
Debt service	-	2,060	2,060	-
<b>Total expenditures</b>	<u>77,029,452</u>	<u>78,112,962</u>	<u>74,691,997</u>	<u>3,420,965</u>
Excess of revenues over (under) expenditures	(619,222)	(1,702,732)	2,108,650	3,811,382
<b>Other financing sources (uses):</b>				
Transfers out	(300,000)	(413,040)	(413,040)	-
Other financing sources	200,000	200,000	213,518	13,518
Other financing uses	(3,000)	(6,450)	(6,398)	52
Sale of assets	2,000	2,000	752	(1,248)
<b>Total other financing sources (uses):</b>	<u>(101,000)</u>	<u>(217,490)</u>	<u>(205,168)</u>	<u>12,322</u>
Net change in fund balance	(720,222)	(1,920,222)	1,903,482	\$ 3,823,704
Fund balance, beginning of year	15,527,339	15,527,339	15,527,339	
Prior year encumbrances appropriated	658,524	658,524	658,524	
Fund balance, end of year	<u>\$ 15,465,641</u>	<u>\$ 14,265,641</u>	<u>\$ 18,089,345</u>	

See accompanying notes to required supplementary information.

# FOREST HILLS LOCAL SCHOOL DISTRICT

Notes to Budgetary Required Supplementary Information  
Year Ended June 30, 2016

## Note A 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 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) 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:

Certain funds accounted for as separate funds internally with legally adopted budgets (budget basis) do not meet the definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (GAAP basis).

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as a component of fund balance (restricted, committed, or assigned) for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

Net change in fund balance - GAAP Basis	\$	<u>General</u> (2,412,964)
Increase / (decrease):		
Due to inclusion of Uniform School Supply Fund		5,071
Due to inclusion of Adult Education Fund		-
Due to inclusion of Public School Support Fund		(29,605)
Due to inclusion of Workers' Compensation Self-Insurance Fund		(9,290)
Due to revenues		4,782,433
Due to expenditures		(25,575)
Due to other sources (uses)		207,872
Due to encumbrances		<u>(614,460)</u>
Net change in fund balance - Budget Basis	\$	<u>1,903,482</u>

## FOREST HILLS LOCAL SCHOOL DISTRICT

Required Supplementary Information

Schedule of School District's Proportionate Share of the Net Pension Liability

School Employees Retirement System of Ohio

Last Three Measurement Periods (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.3365959%	0.3395330%	0.3395330%
School District's Proportionate Share of the Net Pension Liability	\$19,206,488	\$17,183,572	\$20,190,938
School District's Covered-Employee Payroll	\$12,849,059	\$ 9,965,823	\$ 9,874,557
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	149.48%	172.43%	204.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

## FOREST HILLS LOCAL SCHOOL DISTRICT

Required Supplementary Information

Schedule of School District's Proportionate Share of the Net Pension Liability

State Teachers Retirement System of Ohio

Last Three Measurement Periods (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.34165020%	0.34282996%	0.34282996%
School District's Proportionate Share of the Net Pension Liability	\$94,422,122	\$83,388,111	\$99,331,372
School District's Covered-Employee Payroll	\$36,656,393	\$37,722,192	\$38,348,628
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	257.59%	221.06%	259.02%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.09%	74.70%	69.30%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

## FOREST HILLS LOCAL SCHOOL DISTRICT

Required Supplementary Information  
Schedule of School District Contributions  
School Employees Retirement System of Ohio  
Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 1,711,465	\$ 1,693,506	\$1,381,263	\$1,366,639
Contributions in Relation to the Contractually Required Contributions	<u>(1,711,465)</u>	<u>(1,693,506)</u>	<u>(1,381,263)</u>	<u>(1,366,639)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered- Employee Payroll	\$12,224,750	\$12,849,059	\$9,965,823	\$9,874,557
Contributions as a Percentage of Covered- Employee Payroll	14.00%	13.18%	13.86%	13.84%

(1) The School District elected not to present information prior to 2013. The School District will continue to present information for years available until a full ten-year trend is compiled.



**FOREST HILLS LOCAL SCHOOL DISTRICT**

Required Supplementary Information  
Schedule of School District Contributions  
State Teachers Retirement System of Ohio  
Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 5,482,693	\$ 5,131,895	\$ 4,903,885	\$ 4,985,322
Contributions in Relation to the Contractually Required Contributions	<u>(5,482,693)</u>	<u>(5,131,895)</u>	<u>(4,903,885)</u>	<u>(4,985,322)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered- Employee Payroll	\$39,162,093	\$36,656,393	\$37,722,192	\$38,348,628
Contributions as a Percentage of Covered- Employee Payroll	14.00%	14.00%	13.00%	13.00%

(1) The School District elected not to present information prior to 2013. The School District will continue to present information for years available until a full ten-year trend is compiled.

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**FOREST HILLS SCHOOL DISTRICT  
HAMILTON COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	N/A	113,278
Cash Assistance:			
School Breakfast Program	10.553	3L70	12,050
National School Lunch Program	10.555	3L60	360,375
			<hr/>
Total U.S. Department of Agriculture - Total Child Nutrition Cluster			<b>485,702</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I, Part A Cluster:			
Grants to Local Educational Agencies (Title I) - Basic Aid	84.010	S010A160035	555,395
Title I Delinquency Grant	84.010	S010A160035	13,091
Total Title I, Part A Cluster			<hr/> 568,486
Special Education Cluster:			
Special Education Grants to States (IDEA Part B)	84.027	H027A150111	1,191,435
IDEA Preschool Grant	84.173	H173A150119	28,371
Total Special Education Cluster			<hr/> 1,219,805
Title III - LEP English Language Acquisition	84.365	S365A160035	18,890
Title II-A - Improving Teacher Quality State Grants	84.367	S367A150034	113,228
<i>Passed through the Great Oaks Institute of Technology &amp; Career Development</i>			
Carl Perkins/Vocational Education	84.048	N/A	8,129
Total U.S. Department of Education			<hr/> <b>1,928,539</b>
<b>Total Federal Awards Expenditures</b>			<hr/> <b>\$2,414,241</b>

The accompanying notes to this schedule are an integral part of this schedule.

**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Forest Hills Local School District's (the District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

**NOTE D - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2016 to 2017 programs:

Program Title	CFDA Number	Amount Transferred
Title I Grants to Local Educational Agencies	84.010	\$61,044
Title I Delinquency Grant	84.010	\$8,960
Special Education - Grants to States	84.027	\$98,749
IDEA Preschool Grant	84.173	\$6,291
Title III – LEP	84.365	\$6,196
Title II-A Improving Teacher Quality	84.367	\$7,596



# Dave Yost • Auditor of State

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

Forest Hills Local School District  
Hamilton County  
7946 Beechmont Avenue  
Cincinnati, Ohio 45255

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Forest Hills Local School District, Hamilton County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 13, 2017.

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

January 13, 2017



# Dave Yost • Auditor of State

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

Forest Hills Local School District  
Hamilton County  
7946 Beechmont Avenue  
Cincinnati, Ohio 45255

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

We have audited the Forest Hills Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Forest Hills Local School District's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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

***Opinion on the Major Federal Program***

In our opinion, the Forest Hills Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

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

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

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

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

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



**Dave Yost**  
Auditor of State

Columbus, Ohio

January 13, 2017



**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016**

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

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

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

None noted

**3. FINDINGS FOR FEDERAL AWARDS**

None noted

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# Dave Yost • Auditor of State

**FOREST HILLS LOCAL SCHOOL DISTRICT**

**HAMILTON 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  
JANUARY 31, 2017**