



Balestra, Harr & Scherer, CPAs, Inc.

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

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HAMILTON CITY SCHOOL DISTRICT
BUTLER COUNTY

SINGLE AUDIT

For the Year Ended June 30, 2016
Fiscal Year Audited Under GAGAS: 2016



Dave Yost • Auditor of State

Board of Education
Hamilton City School District
533 Dayton Street
Hamilton, Ohio 45011

We have reviewed the *Independent Auditor's Report* of the Hamilton City School District, Butler County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

February 8, 2017

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HAMILTON CITY SCHOOL DISTRICT
Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Hamilton City School District
533 Dayton Street
Hamilton, Ohio 45011

Members of 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 Hamilton City School District, Butler 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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hamilton City School District, Butler County, Ohio, as of June 30, 2016, and the respective changes in cash financial position and the respective budgetary comparisons for the General fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Federal Awards Expenditures 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 basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, 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.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 21, 2016

Hamilton City School District
Statement of Net Position - Cash Basis
June 30, 2016

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$39,014,363</u>
Total Assets	<u>39,014,363</u>
Net Cash Position:	
Restricted for:	
Debt Service	4,246,173
Capital Projects	142,541
Classroom Facilities Maintenance	3,701,973
Extracurricular	167,468
Auxiliary Services	417,089
State Funded Programs	17,767
Federally Funded Programs	353,535
Food Service	3,506,019
Other Purposes	137,269
Unrestricted	<u>26,324,529</u>
Total Net Cash Position	<u>\$39,014,363</u>

See accompanying notes to the basic financial statements.

Hamilton City School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$47,032,759	\$1,025,202	\$3,542,954	(\$42,464,603)
Special	14,108,818	207,600	11,544,618	(2,356,600)
Vocational	1,488,116	27,522	1,509,361	48,767
Other	128,910	0	115,187	(13,723)
Adult/Continuing	308,073	0	298,431	(9,642)
Support Services:				
Pupil	6,876,642	139,101	797,388	(5,940,153)
Instructional Staff	4,632,890	65,927	1,614,560	(2,952,403)
General Administration	587,384	13,104	0	(574,280)
School Administration	4,825,830	95,333	601,856	(4,128,641)
Fiscal	1,117,529	22,254	9,168	(1,086,107)
Business	471,078	10,365	37,361	(423,352)
Operations and Maintenance	8,382,974	182,087	246,848	(7,954,039)
Pupil Transportation	3,719,626	73,298	253,896	(3,392,432)
Central	883,793	16,686	34,734	(832,373)
Operation of Non-Instructional Services	5,494,741	625,738	5,849,068	980,065
Extracurricular Activities	1,449,904	554,692	28,000	(867,212)
Capital Outlay	4,309,903	0	0	(4,309,903)
Debt Service:				
Principal Retirement	5,050,000	0	0	(5,050,000)
Interest and Fiscal Charges	3,732,822	0	0	(3,732,822)
Totals	\$114,601,792	\$3,058,909	\$26,483,430	(85,059,453)

General Receipts:

Property Taxes Levied for:

General Purposes	17,702,863
Special Revenue Purposes	322,422
Debt Service Purposes	7,009,346
Capital Projects Purposes	1,983,223
Grants and Entitlements, Not Restricted	61,896,834
Investment Earnings	109,279
Refunds and Reimbursements	9,223
Other Receipts	453,834

Total General Receipts 89,487,024

Change in Net Cash Position 4,427,571

Net Cash Position - Beginning of Year 34,586,792

Net Cash Position - End of Year \$39,014,363

See accompanying notes to the basic financial statements.

Hamilton City School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	<u>\$24,438,858</u>	<u>\$4,246,173</u>	<u>\$10,329,332</u>	<u>\$39,014,363</u>
 Total Assets	 <u>24,438,858</u>	 <u>4,246,173</u>	 <u>10,329,332</u>	 <u>39,014,363</u>
 Fund Cash Balances:				
Nonspendable	19,517	0	0	19,517
Restricted	0	4,246,173	8,443,661	12,689,834
Committed	0	0	1,845,829	1,845,829
Assigned	1,326,610	0	39,842	1,366,452
Unassigned	<u>23,092,731</u>	<u>0</u>	<u>0</u>	<u>23,092,731</u>
 Total Fund Cash Balances	 <u>\$24,438,858</u>	 <u>\$4,246,173</u>	 <u>\$10,329,332</u>	 <u>\$39,014,363</u>

See accompanying notes to the basic financial statements.

Hamilton City School District
Statement of Cash Receipts, Cash Disbursements
and Changes in Fund Cash Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Receipts:				
Property and Other Taxes	\$17,702,863	\$7,009,346	\$2,256,958	\$26,969,167
Tuition and Fees	1,930,154	0	0	1,930,154
Investment Earnings	87,742	0	21,538	109,280
Intergovernmental	72,804,859	1,299,810	14,296,284	88,400,953
Extracurricular Activities	109,588	0	351,629	461,217
Charges for Services	98,540	0	616,204	714,744
Other Receipts	217,578	0	226,270	443,848
Total Receipts	92,951,324	8,309,156	17,768,883	119,029,363
Cash Disbursements:				
Current:				
Instruction:				
Regular	46,249,998	0	782,761	47,032,759
Special	9,305,498	0	4,803,320	14,108,818
Vocational	1,233,980	0	254,136	1,488,116
Other	0	0	128,910	128,910
Adult/Continuing	0	0	308,073	308,073
Support Services:				
Pupil	6,189,529	0	687,113	6,876,642
Instructional Staff	2,955,123	0	1,677,767	4,632,890
General Administration	587,384	0	0	587,384
School Administration	4,273,232	0	552,598	4,825,830
Fiscal	997,517	90,836	29,176	1,117,529
Business	464,603	0	6,475	471,078
Operations and Maintenance	8,161,888	0	221,086	8,382,974
Pupil Transportation	3,285,539	0	434,087	3,719,626
Central	834,736	0	49,057	883,793
Operation of Non-Instructional Services	65,032	0	5,429,709	5,494,741
Extracurricular Activities	986,221	0	463,683	1,449,904
Capital Outlay	150	0	4,309,753	4,309,903
Debt Service:				
Principal Retirement	0	5,050,000	0	5,050,000
Interest and Fiscal Charges	0	3,732,822	0	3,732,822
Total Cash Disbursements	85,590,430	8,873,658	20,137,704	114,601,792
Excess of Receipts Over (Under) Cash Disbursements	7,360,894	(564,502)	(2,368,821)	4,427,571
Other Financing Sources (Uses):				
Advances In	86,272	0	384,738	471,010
Advances (Out)	(384,738)	0	(86,272)	(471,010)
Total Other Financing Sources (Uses)	(298,466)	0	298,466	0
Net Change in Fund Cash Balance	7,062,428	(564,502)	(2,070,355)	4,427,571
Fund Cash Balance - Beginning of Year	17,376,430	4,810,675	12,399,687	34,586,792
Fund Cash Balance - End of Year	\$24,438,858	\$4,246,173	\$10,329,332	\$39,014,363

See accompanying notes to the basic financial statements.

Hamilton City School District
Statement of Receipts, Disbursements and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2016

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Property and Other Taxes	\$15,702,036	\$17,702,863	\$17,702,863	\$0
Tuition and Fees	1,637,818	1,846,517	1,846,517	0
Investment Earnings	77,526	87,405	87,405	0
Intergovernmental	64,576,249	72,804,857	72,804,859	2
Rent	31,856	35,915	35,915	0
Other Receipts	110,850	124,975	124,975	0
Total Budgetary Basis Receipts	82,136,335	92,602,532	92,602,534	2
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	44,567,728	46,024,569	46,024,573	(4)
Special	9,027,084	9,322,163	9,322,164	(1)
Vocational	1,232,708	1,273,003	1,273,003	0
Support Services:				
Pupil	5,812,989	6,003,006	6,003,006	0
Instructional Staff	2,933,997	3,029,904	3,029,904	0
General Administration	870,703	899,165	899,165	0
School Administration	4,156,187	4,292,046	4,292,046	0
Fiscal	973,217	1,005,030	1,005,030	0
Business	567,704	586,261	586,261	0
Operations and Maintenance	8,314,467	8,586,252	8,586,253	(1)
Pupil Transportation	3,260,539	3,367,121	3,367,121	0
Central	729,487	753,333	753,333	0
Operation of Non-Instructional Services	62,974	65,032	65,032	0
Extracurricular Activities	950,992	982,078	982,078	0
Capital Outlay	145	150	150	0
Total Budgetary Basis Disbursements	83,460,921	86,189,113	86,189,119	(6)
Excess of Budgetary Basis Receipts Over (Under)				
Budgetary Basis Disbursements	(1,324,586)	6,413,419	6,413,415	(4)
Other Financing Sources (Uses):				
Advances In	76,521	86,272	86,272	0
Advances (Out)	(372,562)	(384,740)	(384,740)	0
Transfers (Out)	(237,245)	(245,000)	(245,000)	0
Total Other Financing Sources (Uses)	(533,286)	(543,468)	(543,468)	0
Net Change in Fund Balance	(1,857,872)	5,869,951	5,869,947	(4)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	17,074,431	17,074,431	17,074,431	0
Fund Balance End of Year	\$15,216,559	\$22,944,382	\$22,944,378	(\$4)

See accompanying notes to the basic financial statements.

Hamilton City School District
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2016

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$67,709</u>	<u>\$154,834</u>
Total Assets	<u>67,709</u>	<u>154,834</u>
Liabilities:		
Held on Behalf of Students	<u>0</u>	<u>154,834</u>
Total Liabilities	<u>0</u>	<u>\$154,834</u>
Net Cash Position:		
Held in Trust for Scholarships	<u>67,709</u>	
Total Net Cash Position	<u>\$67,709</u>	

See accompanying notes to the basic financial statements.

Hamilton City School District
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust
Additions:	
Donations	\$17,690
Investment Earnings	99
Total Additions	<u>17,789</u>
Deductions:	
Scholarships	<u>20,032</u>
Total Deductions	<u>20,032</u>
Change in Net Cash Position	(2,243)
Net Cash Position - Beginning of Year	<u>69,952</u>
Net Cash Position - End of Year	<u>\$67,709</u>

See accompanying notes to the basic financial statements.

Note 1 - Description Of The School District And Reporting Entity

The Hamilton City School District, Butler County, Ohio (the "School District"), is a political body incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is organized under article VI, sections 2 and 3 of the Constitution of the State of Ohio. The Hamilton City School District is governed by a locally elected, five member Board of Education (the Board), which provides educational services.

Reporting Entity:

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; 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 School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations include the Southwest Ohio Computer Association, Southwestern Ohio Educational Purchasing Council, Better Health Plan, and Southwestern Ohio Educational Purchasing Council-Liability, Fleet and Property Insurance Program. These organizations are presented in Note 15 to the basic financial statements.

Note 2 - Summary Of Significant Accounting Policies

As discussed further in the Basis of Accounting Section of Note 2, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

The more significant of the School District's accounting policies are described below.

Basis of Presentation

The School District uses the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement note disclosures. The School District's basic financial

statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide statements usually distinguish between those activities that are governmental and those that are considered business-type activities. The School District, however, does not have any activities which are presented as business-type.

The Statement of Net Position presents the cash balance of the governmental activities of the School District at fiscal year-end. The Statement of Activities compares disbursements with program receipts for each function of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

Fund Financial Statements:

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting 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 type.

Fund Accounting

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

Governmental Funds:

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants), and other nonexchange transactions as governmental funds. 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.

Debt Service Fund – A fund provided for the retirement of serial bonds and short term notes and loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds, notes, or loans, shall be paid into this fund.

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

Fiduciary Funds:

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's fiduciary funds include Private Purpose Trust Funds and Agency Funds. The School District's Private Purpose Trust Funds account for needs based programs for students and college scholarship programs for students. The School District's Agency Funds account for those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned, and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related receipts (such as accounts receivable and receipts for billed or provided services not yet collected) and certain liabilities and their related disbursements (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements and liabilities) are not recorded in these financial statements.

Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources

when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources that were in effect at the time final appropriations were passed by the Board.

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

Cash and Investments

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

During fiscal year 2016, the School District invested in Huntington Certificates of Deposit and Money Market accounts and the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office which 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 STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2016.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Investment earnings credited to the General Fund during fiscal year 2016 were \$87,742 and \$21,538 was assigned to other governmental funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash and cash equivalents.

Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Pensions

For purposes of measuring the net pension liability, 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.

Net Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

Fund Cash Balance

Fund cash 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:

Non-spendable

The non-spendable fund cash balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted

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

Assigned

Amounts in the assigned fund cash balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In

governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the Board of Education.

Unassigned

Unassigned fund cash 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.

Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

Long-Term Obligations

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

Note 3 – Fund Cash Balances

Fund cash balance is classified as non-spendable, 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 government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented on the next page:

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Nonspendable:				
Unclaimed Funds	\$19,517	\$0	\$0	\$19,517
Total Nonspendable	19,517	0	0	19,517
Restricted for:				
Debt Service Fund	0	4,246,173	0	4,246,173
Permanent Improvement Cash Fund	0	0	142,541	142,541
Classroom Facilities Maintenance	0	0	3,701,973	3,701,973
Building Program Fund	0	0	0	0
Ohio School Facilities Fund	0	0	0	0
Food Service Fund	0	0	3,506,019	3,506,019
TV Hamilton Fund	0	0	98,990	98,990
Other Grants Fund	0	0	38,279	38,279
Student Activities Fund	0	0	167,468	167,468
Auxiliary Services Fund	0	0	417,089	417,089
Alternative School Fund	0	0	17,538	17,538
Miscellaneous State Grants	0	0	229	229
Adult Basic Education Fund	0	0	5,436	5,436
Title VI-B Fund	0	0	217,571	217,571
Carl Perkins Fund	0	0	0	0
Title III LEP Fund	0	0	1,104	1,104
Title I Fund	0	0	73,421	73,421
Early Childhood	0	0	0	0
Improving Teacher Quality Fund	0	0	3,713	3,713
Title I School Improvement	0	0	52,290	52,290
Total Restricted	0	4,246,173	8,443,661	12,689,834
Committed to:				
Permanent Improvement Fund	0	0	1,845,829	1,845,829
Total Committed	0	0	1,845,829	1,845,829
Assigned to:				
Capital Projects Fund	0	0	39,842	39,842
Encumbrances	1,245,205	0	0	1,245,205
Public School	81,405	0	0	81,405
Budgetary Resource	0	0	0	0
Total Assigned	1,326,610	0	39,842	1,366,452
Unassigned	23,092,731	0	0	23,092,731
Total Fund Cash Balance	\$24,438,858	\$4,246,173	\$10,329,332	\$39,014,363

Note 4 - Budgetary Basis Of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund and Classroom Facilities Maintenance Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year-end encumbrances treated as cash disbursements (budgetary basis) rather than restricted, committed or assigned fund balance (cash basis).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the General Fund.

	<u>General</u>
GAAP Basis	\$7,062,428
Revenue Accruals	(348,792)
Expenditure Accruals	638,420
Transfer Out	(245,000)
Encumbrances	(1,196,527)
Funds Budgeted Elsewhere	<u>(40,582)</u>
Budget Basis	<u><u>\$5,869,947</u></u>

Note 5 - Deposits and Investments

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

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

As of June 30, 2016, \$2,034,699 of the District's bank balance of \$2,676,594 (of this total, \$3,281 is held with StarPlus) was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments

As of June 30, 2016, the School District had investments in STAR Ohio in the amount of \$32,661,602. The average maturity of STAR Ohio is 49 days. The Huntington Money Market Accounts are used as short term investments that are at or near the STAR Ohio rate of return.

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money Market Funds	\$19,905	0.00
Negotiable CD's	4,240,415	0.00
STAR Ohio	<u>32,661,602</u>	0.13
Total Fair Value	<u>\$36,921,922</u>	
Portfolio Weighted Average Maturity		

Interest Rate Risk:

The School District's investment policy follows State statute, which requires that an investment mature within five years of the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk:

STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District's investment policy mirrors Ohio Law except that it requires that the investment have the highest rating available from two rating agencies at the time of purchase.

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 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 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.

Public utility property tax revenue received in calendar year 2016 represents 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 Butler County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

Tax Value Type	2015 2nd Half Value	Percent of Tax Base	Eff. Tax Rate	2016 1st Half Value	Percent of Tax Base	Eff. Tax Rate
Real Estate-Res/Agr	\$572,191,490	75.93%	39.49%	\$569,490,110	76.11%	38.84%
Real Estate-Com/Ind	177,453,670	23.55%	45.87%	175,145,720	23.41%	45.58%
Public Utility-RE	315,560	0.04%	45.87%	312,630	0.04%	45.58%
Public Utility-Personal	3,581,190	0.48%	55.61%	3,310,740	0.44%	54.81%
Total	<u>\$753,541,910</u>	<u>100.00%</u>		<u>\$748,259,200</u>	<u>100.00%</u>	

Note 7 - Interfund Activity

At June 30, 2016, the General Fund had an unpaid interfund cash advance, in the amount of \$384,740, for a short-term loan made to Other Governmental Funds. This is expected to be received within one year. The General Fund also received repayments from Other Governmental Funds of \$86,272, for short-term loans made during fiscal year 2015.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District was a member of the Southwestern Ohio Educational Purchasing Council's – Liability, Fleet and Property Insurance Program.

During fiscal year 2016, the School District, along with other school districts and educational service centers in Ohio, participated in the Southwestern Ohio Educational Purchasing Council's – Liability, Fleet and Property Insurance Program (Insurance Program), an insurance purchasing pool. Each individual school district or educational service center enters into an agreement and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the Insurance Program (See Note 14). The School District contracts their liability insurance through the Insurance Program.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant changes in coverage from fiscal year 2015.

Note 9 - Defined Benefit Pension Plans

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 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.

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

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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service, 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$2,366,016 for fiscal year 2016.

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.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year 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 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

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

The School District’s contractually required contribution to STRS was \$6,103,824 for fiscal year 2016.

Net Pension Liability

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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$22,371,871	\$110,181,202	\$132,553,073
Proportion of the Net Pension Liability	0.3920696%	0.39867172%	

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.

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

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

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

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

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

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

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

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
School District's proportionate share of the net pension liability	\$31,021,746	\$22,371,871	\$15,087,963

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

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

Actuarial assumptions used in the June 30, 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent 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 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$153,050,001	\$110,181,202	\$73,929,239

Note 10 - Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a

prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, 0.00% of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$204,106.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$318,737, and \$219,227, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

State Teachers Retirement System of Ohio

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 or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$405,427 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Note 11 - Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Certain employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. All unused vacation, up to a balance not greater than three years accrual, may be carried forward to the succeeding fiscal year. Sick leave may be accumulated up to a maximum of 295-300 days for classified employees and 300 days for certified employees. Upon retirement, payment is made for one-fourth of accrued sick leave for the first 150 days accrued sick leave and one-half of the next 135 days of accrued sick leave paid at their daily rate upon retirement for classified and certified employees.

Life Insurance

Life Insurance is provided by the School District to most employees through Sun Life.

Dental Care

Dental Insurance is provided by the School District to most employees through Butler Health Plan.

Vision Care

Vision Insurance is provided by the School District to most employees through a self-insured plan that is administered by Allied Benefits.

Deferred Compensation Plan

School District employees may elect to participate in a variety of deferred compensation plans. The District offers a voluntary 403b plan, 457 plan and The Ohio Public Employees Deferred Compensation Plan which is also a 457 plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

Note 12 - Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2016 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
Governmental Activities:					
General Obligation Bonds:					
1999 School Improvement	\$3,635,000	\$0	(\$1,765,000)	\$1,870,000	\$1,870,000
2005 Refunding Bonds	270,000	0	0	270,000	270,000
2007 School Improvement	3,760,000	0	(1,835,000)	1,925,000	1,925,000
2015 G.O. Refunding Bonds	73,770,000	0	(1,450,000)	72,320,000	405,000
Premium on Refunding Bonds	10,460,562	0	(523,028)	9,937,534	0
Total	<u>\$91,895,562</u>	<u>\$0</u>	<u>(\$5,573,028)</u>	<u>\$86,322,534</u>	<u>\$4,470,000</u>

School Improvement Bonds

In May 1999 the School District issued \$45,000,000 General Obligation bonds for the purpose of constructing, remodeling and equipping school facilities. The bonds were issue for a period of 25 years with final maturity in December 2016.

In March 2005, the School District issued a \$23,215,000 General Obligation bond for the purpose of refunding \$3,500,000 of May 1999 School Improvement Serial Bonds and \$19,715,000 of May 1999 School Improvement Term Bonds. The bonds were issued for a twenty-year period, with final maturity in December 2024.

In March 2007, the School District issued \$72,000,000 in General Obligation bonds that were approved by the electorate of the Hamilton City School District in November 2006. This bonded debt will fulfill the School District's local share in completing the master facilities plan.

A description of the 2015 General Obligation Refunding Bonds can be seen in Note 13.

All of the above bonds are being paid from the Debt Service Fund.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2016, are as follows:

Fiscal Year			
Ending June 30	Principal	Interest	Total
2017	\$4,470,000	\$4,512,340	\$8,982,340
2018	2,030,000	3,368,369	5,398,369
2019	4,230,000	3,253,319	7,483,319
2020	4,460,000	3,057,218	7,517,218
2021	4,590,000	2,830,969	7,420,969
2022-2026	23,720,000	10,449,092	34,169,092
2027-2031	16,670,000	5,729,028	22,399,028
2032-2035	<u>16,215,000</u>	<u>1,638,088</u>	<u>17,853,088</u>
Total	<u>\$76,385,000</u>	<u>\$34,838,423</u>	<u>\$111,223,423</u>

Note 13 – Current/Advance Refunding

On March 10, 2015, the School District issued \$73,770,000 in bonds with an average interest rate of 4.736% of which \$18,330,000 was used to partially current refund \$20,740,000 of outstanding 2005 Bonds and \$55,440,000 was used to partially advance refund \$56,585,000 of outstanding 2007 Bonds. The net proceeds of \$83,734,042 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the bond issue.

The School District partially refunded (current and advance) the 2005 and 2007 Bonds to reduce its total debt service payments by \$8,285,290 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$6,646,359.

Note 14 - Jointly Governed Organizations/Insurance Purchasing Pools

Jointly Governed Organizations

Southwest Ohio Computer Association:

The School District is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The School District paid SWOCA \$441,095 for membership and services during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council-Liability, Fleet and Property Insurance Program

The School District participates in the Southwestern Ohio Educational Purchasing Council-Liability, Fleet and Property Insurance Program (Insurance Program), a self funded insurance purchasing pool. The Insurance Program was created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The Insurance Program is an unincorporated, non-profit association of its members and an instrumentality for each member for the sole purpose of enabling members of the Insurance Program to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs and other administrative services. The Insurance Program's business and affairs are conducted by a 6 member Board of Directors consisting of school district superintendents, business managers and treasurers. The Insurance Plan has an agreement with Arthur J. Gallagher Risk Management Services, Inc. to provide underwriting, claims management, risk management, accounting, system support services, sales and marketing for the Insurance Program. Arthur J. Gallagher Risk Management Services, Inc. also coordinates reinsurance brokerage services for the Insurance Program.

Butler Health Plan

For fiscal year 2016, the School District participated in the Butler Health Plan, a shared risk pool consisting of 9 area school districts, 2 Career Development School Districts, and an Educational Service Center. The School District pays monthly premiums to Butler Health Plan for employee medical and dental benefits. Butler Health is responsible for the management and operations of the program. Upon withdrawal from the Butler Health Plan, a participant is responsible for all claims that exceed the expected claims for that district for a defined period of time.

Note 15 - Set-Aside Calculations

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year

must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

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

	Capital Improvements
Set-aside Reserve Balance as of June 30, 2015	\$0
Current Fiscal Year Set-aside Requirement	1,675,971
Qualifying Disbursements	(1,251,591)
Current Fiscal Year Offsets	(424,380)
Totals	<u>\$0</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2016	<u><u>\$0</u></u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced capital improvements amounts below zero. The extra amount for capital improvements may not be used to reduce the set-aside requirements in future fiscal years.

Note 16 – Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

Litigation

The School District is not currently a party to any legal proceedings.

Full Time Equivalency

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

liability of the School District, the fact that the school district's funding was capped in FY16 will severely limit the impact of any enrollment adjustments.

Note 17 – Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

**Hamilton City School District Schedule
of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Passed Through to Subrecipients	Disbursements
United States Department of Agriculture				
<i>Passed through the Ohio Department of Education</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program 15-16	3L70	10.553	-	1,678,387
National School Lunch Program 15-16	3L60	10.555	-	3,180,697
Summer Food Service Program for Children 15-16	3L60	10.559	-	34,197
Total Child Nutrition Cluster			-	4,893,281
Total United States Department of Agriculture			-	4,893,281
United States Department of Education				
<i>Passed through the Ohio Department of Education</i>				
<i>Special Education Cluster:</i>				
Special Education - Grants to States 15-16	3M20	84.027	-	1,989,357
Special Education - Grants to States 14-15	3M20	84.027	-	368,841
Special Education - Preschool Grants 15-16	3C50	84.173	-	93,788
Special Educaiton - Preschool Grants 14-15	3D10	84.391	-	11,721
Total Special Education Cluster			-	2,463,707
Adult Education - Basic Grants to States 15-16	N/A	84.002	-	310,155
Adult Education - Basic Grants to States 14-15	N/A	84.002	-	39,261
Title I Grants to Local Educational Agencies 15-16	3M00	84.010	-	3,724,879
Title I Grants to Local Educational Agencies 14-15	3M00	84.010	-	793,218
Career and Technical Education - Basic Grants to States 15-16	3L90	84.048	-	184,626
Career and Technical Education - Basic Grants to States 14-15	3L90	84.048	-	26,157
Education for Homeless Children and Youth 15-16	3EJ0	84.196	-	9,472
English Language Acquisition State Grants 15-16	3Y70	84.365	-	102,438
Improving Teacher Quality State Grants 15-16	3Y60	84.367	-	551,773
Improving Teacher Quality State Grants 14-15	3Y60	84.367	-	88,377
Total United States Department of Education			-	8,294,063
Total Federal Financial Assistance			-	13,187,344

NA - Pass Through Entity Number is Not Available
See Accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures

Hamilton City School District
Notes to the Schedule of Federal Expenditures
For the Fiscal 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 Hamilton City School District (the District) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – 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 expands federal monies first.

NOTE D – 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 benefited from the use of those donated food commodities.



Balestra, Harr & Scherer, CPAs, Inc.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Required by *Government Auditing Standards*

Hamilton City School District
533 Dayton Street
Hamilton, Ohio 45011

Members of 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 Hamilton City School District, Butler 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 December 21, 2016 wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

Entity's Response to Finding

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the 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.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 21, 2016



Balestra, Harr & Scherer, CPAs, Inc.

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

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Hamilton City School District
533 Dayton Street
Hamilton, Ohio 45011

Members of the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Hamilton City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Hamilton City School District's major federal programs 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 programs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration 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 programs. However, our audit does not provide a legal determination of the District's compliance.

Members of the Board of Education
Hamilton City School District
Report on Compliance with Requirements Applicable to Each Major Federal Program and on
Internal Control over Compliance Required by the Uniform Guidance
Page 2

Opinion on Each Major Federal Program

In our opinion, the Hamilton City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 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 compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 21, 2016

Hamilton City School District
Schedule of Findings
2 CFR § 200.515
June 30, 2016

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Improving Teacher Quality State Grants – CFDA #84.367 Child Nutrition Cluster
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

Hamilton City School District
Schedule of Findings
2 CFR §200.515
June 30, 2016

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

FINDING NUMBER 2016-001

Material Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. The District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

The District should take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

Client Response: The District reluctantly eliminated the GAAP statements as part of our multi-million dollar budget reduction in fiscal year 2011.

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS

None

Hamilton City School District
Corrective Action Plan
2 CFR § 200.515
June 30, 2016

Corrective Action Plan for Finding 2016-001:

Finding Control Number: 2016-001

Summary of Finding: The Ohio Administrative Code requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of GASB State 34.

Statement of Concurrence: The District reluctantly eliminated the GAAP statements as part of the multi-million dollar budget reduction in fiscal year 2011.

Corrective Action: The District reluctantly eliminated the GAAP statements as part of the multi-million dollar budget reduction in fiscal year 2011.

Contact Person: The official responsible for completing the corrective action is listed below:

Robert Hancock
Hamilton City School District Treasurer
Phone: (513) 887-5000
Email: rhancock@hcsdoh.org

**Hamilton City School District
Schedule of Prior Audit Findings
June 30, 2016**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2015-001	Material Non-Compliance: OAC 117-2-03(B) the District is required to file its annual financial report in accordance with GAAP.	No	Not Corrected. Reissued as finding 2016-001

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Dave Yost • Auditor of State

HAMILTON CITY SCHOOL DISTRICT

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 21, 2017