



OHIO AUDITOR OF STATE  
**KEITH FABER**





**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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# OHIO AUDITOR OF STATE KEITH FABER



## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forest Hills Local School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the '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 's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Forest Hills Local School District, Hamilton County, Ohio, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 18 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Keith Faber**  
Ohio Auditor of State

Columbus, Ohio

January 22, 2019

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**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2018**  
*Unaudited*

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This discussion and analysis provides key information from management highlighting the overall financial performance of the Forest Hills Local School District for the year ended June 30, 2018. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

**Financial Highlights**

Major financial highlights for fiscal year 2018 are listed below:

- ✓ The liabilities and deferred inflows of resources of the School District exceeded its assets and deferred outflows of resources at year-end by \$39,876,468. The deficit net position balance was driven by the recognition of \$124,448,876 in the School District's proportionate share of net pension and other postemployment benefit (OPEB) liabilities.
- ✓ In total, net position increased by \$42,192,237; the majority of the increase can be attributed to recognizing negative pension and (OPEB) expenses for the current fiscal year.
- ✓ The School District had \$52,012,446 in expenses related to governmental activities; only \$9,435,648 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$84,769,035, made up primarily of property taxes and State Foundation payments, provided the funding for these programs.
- ✓ The General Fund balance decreased by \$5,500,311 from \$28,625,267 at June 30, 2017 to \$23,124,956 at June 30, 2018.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2018**  
*Unaudited*

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

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

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

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

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

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

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2018**  
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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

The following table presents a condensed summary of the School District's overall financial position at June 30, 2018 and 2017:

	<b>Governmental Activities</b>	
	<b>FY18</b>	<i>Restated</i> <b>FY17</b>
Assets:		
Current and other assets	\$ 106,824,178	147,570,688
Capital assets	<u>119,189,116</u>	<u>84,968,359</u>
Total assets	<u>226,013,294</u>	<u>232,539,047</u>
Deferred outflows of resources	<u>34,030,790</u>	<u>29,023,025</u>
Liabilities:		
Long-term liabilities:		
Net pension liability	102,090,367	143,532,842
Net OPEB liability	22,358,509	28,771,524
Other long-term amounts	108,327,821	110,880,036
Other liabilities	<u>18,647,217</u>	<u>21,936,044</u>
Total liabilities	<u>251,423,914</u>	<u>305,120,446</u>
Deferred inflows of resources	<u>48,496,638</u>	<u>38,510,331</u>
Net position:		
Net investment in capital assets	17,698,448	16,683,119
Restricted	15,706,196	14,636,696
Endowment:		
Expendable	15,999	6,951
Nonexpendable	718,295	718,295
Unrestricted (deficit)	<u>(74,015,406)</u>	<u>(114,113,766)</u>
Total net position	<u>\$ (39,876,468)</u>	<u>(82,068,705)</u>

The net pension liability is the largest single liability reported by the School District at June 30, 2018 and is reported pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. For fiscal year 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2018**  
***Unaudited***

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Governmental Accounting Standards Board (GASB) standards are national and apply to all government financial reports prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Prior accounting for pensions (GASB Statement No. 27) and OPEB (GASB Statement No. 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB Statement Nos. 68 and 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio statewide pension and OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

As required by GASB Statement Nos. 68 and 75, the required net pension liability and the net OPEB liability equal the School District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide health care to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement systems are responsible for the administration of the pension and OPEB plans.

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

In accordance with GASB Statement Nos. 68 and 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB Statement No. 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of (\$53,474,687) to a deficit of (\$82,068,705).

The largest portion of the School District's positive net position is in net investment in capital assets. The School District uses these capital assets to provide educational services to its students. Accordingly, these assets are not available for future spending. An additional portion of the School District's net position (\$16,440,490) represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position (deficit) at June 30, 2018 was (\$74,015,406). However, if the components of recording the net pension and OPEB liabilities are removed from the Statement of Net Position, the School District's unrestricted net position would be a positive \$24,786,267. We feel this is important to mention as the management of the School District has no control over the management of the State-wide retirement plans or the benefits offered; both of which control the net pension and OPEB liabilities that significantly impact the School District's financial statements.

At June 30, 2018, the School District experienced a decrease in its total assets of approximately \$6.5 million, or 3%. In 2015, the School District issued \$103 million in Series 2015 general obligation school improvement bonds to finance facility improvement and new construction. The School District has continued work on these projects, resulting in decreases in cash and investments and increases in capital assets. As of June 30, 2018, the School District had \$10.9 million of bond proceeds yet to be spent.

Total liabilities, excluding the net pension and OPEB liabilities, decreased by about \$5.8 million, or 4%. The decrease was due to decreases in construction-related payables and payment of debt service on outstanding bonds during the fiscal year. The net pension and OPEB liabilities, associated with the School District's participation in State-wide retirement plans, decreased by approximately \$47.9 million, or 28%, primarily due to changes in actuarial assumptions and better than projected investment earnings on the retirement plans' investments.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2018**  
*Unaudited*

**B. Change in net position**

The following table presents a condensed summary of the School District's governmental activities during fiscal years 2018 and 2017 and the resulting change in net position:

	<b>Governmental Activities</b>	
	<b>FY18</b>	<b>FY17</b>
<b>Revenues:</b>		
Program revenues:		
Charges for services and sales	\$ 5,313,859	4,291,992
Operating grants and contributions	4,109,968	3,805,357
Capital grants and contributions	11,821	22,470
Total program revenues	<u>9,435,648</u>	<u>8,119,819</u>
General revenues:		
Property taxes	47,726,968	53,266,053
Revenue in lieu of taxes	10,435,686	10,782,205
Grants and entitlements	25,215,196	25,330,768
Investment earnings	1,081,414	613,346
Miscellaneous	309,771	1,056,802
Total general revenues	<u>84,769,035</u>	<u>91,049,174</u>
<b>Total revenues</b>	<u>94,204,683</u>	<u>99,168,993</u>
<b>Expenses:</b>		
Instruction	23,274,839	53,964,075
Support services:		
Pupil and instructional staff	5,807,765	10,955,797
Board of Education, administration, fiscal, and business	2,959,588	7,970,657
Operation and maintenance of plant	7,013,847	6,909,989
Pupil transportation	3,881,975	4,103,572
Central	805,198	1,327,350
Non-instructional services	2,418,573	4,490,406
Interest and fiscal charges	3,788,043	3,848,488
Food services	2,062,618	2,286,071
<b>Total expenses</b>	<u>52,012,446</u>	<u>95,856,405</u>
Change in net position	42,192,237	3,312,588
Beginning net position	<u>(82,068,705)</u>	<u>N/A</u>
<b>Ending net position</b>	<u>\$ (39,876,468)</u>	<u>(82,068,705)</u>

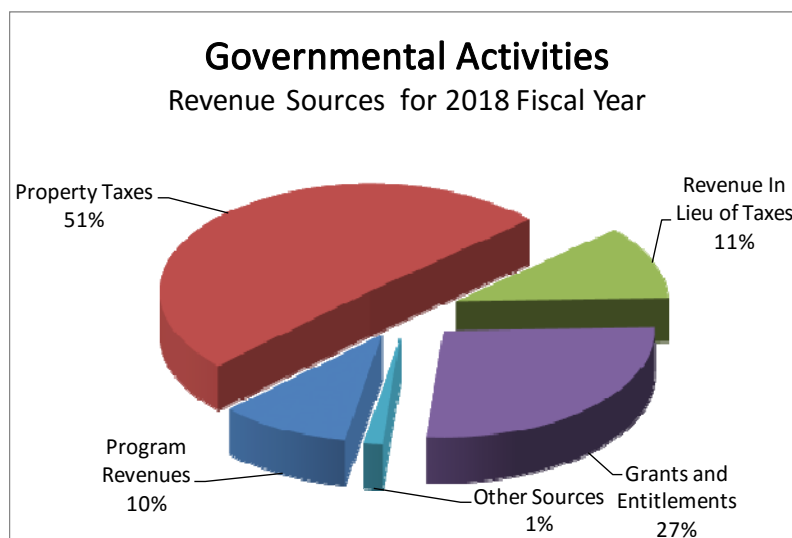
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The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB Statement No. 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$177,506 computed under GASB Statement No. 45. GASB Statement No. 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB Statement No. 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows and outflows of resources. The contractually required contribution is no longer a component of OPEB expense. Under GASB Statement No. 75, the 2018 statements report negative OPEB expense of \$3,827,314. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$ 52,012,446
Negative OPEB expense under GASB 75	3,827,314
2018 contractually required contributions	<u>229,535</u>
Adjusted 2018 program expenses	56,069,295
Total 2017 program expenses under GASB 45	<u>95,856,405</u>
Decrease in program expenses not related to OPEB	<u><u>\$ (39,787,110)</u></u>

Of the total governmental activities revenues of \$94,204,683, \$9,435,648 (10%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, \$47,726,968 (56%) comes from property tax levies and \$25,215,196 (30%) is from state funding. Thus, the School District's operations are reliant upon its property tax levy and the state's foundation program.

Total revenue decreased by approximately \$5.0 million, or 5%. Property taxes accounted for approximately \$5.5 million of the decrease. This decrease is attributable to a significant swing in the amounts held by the County Auditor's Office available to advance to the School District. These amounts are driven by timing of payments by the County Auditor. The decrease was partially offset by increases in charges for services with the initiation of all-day kindergarten during fiscal year 2018.



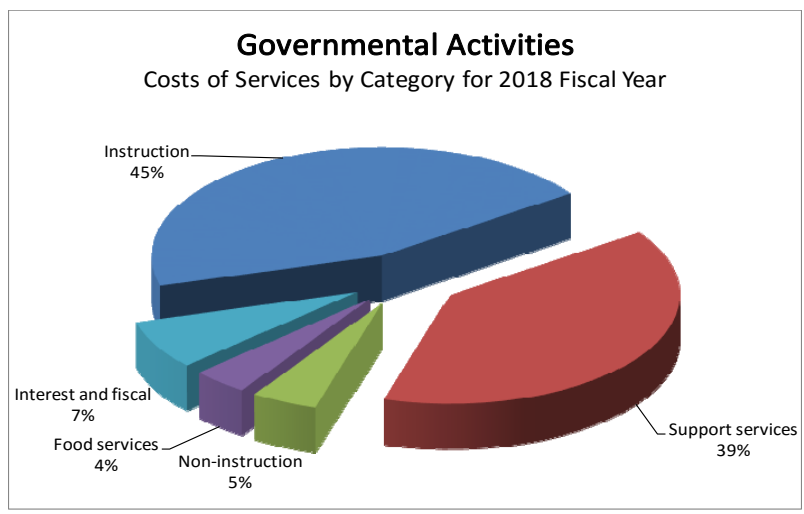
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**Governmental Activities**

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 18% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$23,274,839 but program revenue contributed to fund 20% of those costs. Thus, general revenues of \$18,635,181 were used to support of remainder of the instruction costs. The School District's Food Service operation continues to generate enough program revenue to substantially cover daily operating costs. The School District's governmental activities net position increased by \$42,192,237.

	<b>Governmental Activities</b>			
	<u>Total Cost of Services</u>	<u>Program Revenue</u>	<u>Revenues as a % of Total Costs</u>	<u>Net Cost of Services</u>
Instruction	\$ 23,274,839	4,639,658	20%	18,635,181
Support services	20,468,373	647,165	3%	19,821,208
Non-instructional services	2,418,573	1,861,476	77%	57,097
Food services	2,062,618	2,287,349	111%	(224,731)
Interest and fiscal charges	<u>3,788,043</u>	-	0%	<u>3,788,043</u>
<b>Total</b>	<b>\$ <u>52,012,446</u></b>	<b><u>9,435,648</u></b>	<b><u>18%</u></b>	<b><u>42,576,798</u></b>

Fiscal year 2018 total expenses, after factoring out OPEB adjustments, decreased approximately \$39.8 million, or 42%, from fiscal year 2017. Approximately \$45.3 million of this decrease is related to change in pension expense, recognizing \$12.6 million in pension expense in fiscal year 2017 compared to \$32.7 million in *negative* pension expense in fiscal year 2018. A majority of this is due to changes in actuarial assumptions, including lowering the discount rate. Also, the retirement plans experienced better than projected investment earnings. The decrease was offset by \$5.5 million in increased instructional and support service expenses related to additional personnel to support the all-day kindergarten program, salary step and raises, and general inflationary increases.





**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2018**  
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**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS**

**Governmental funds**

The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The School District has four major governmental funds: the General, Bond Retirement, Permanent Improvement and Building Funds. Assets of these funds comprise \$106,072,568 (96%) of the total \$110,024,178 governmental funds' assets.

**General Fund.** Fund balance at June 30, 2018 was \$23,124,956, including \$15,453,766 of unassigned fund balance which represents 19% of expenditures for fiscal year 2018. Fund balance decreased by \$5,500,311. The reasons for the decrease were due to the aforementioned decrease in amounts of property taxes available for advance by the County Auditor's Office between years and increase in transfers to the Permanent Improvement and Building Funds to fund capital outlays.

General Fund revenues for the past three years have been increasing at an average of 2.9% annually while General Fund expenditures have been increasing at an average of 9.0% over the past three years. The following is an excerpt from the School District's General Fund Five Year Forecast (presented on the cash basis):

	Actual			Average Change
	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	
<i>Total Revenue</i>	\$76,891,950	\$78,317,478	\$81,386,097	2.9%
<i>Total Expenditures</i>	74,496,975	76,931,120	88,280,206	9.0%
<i>Excess of Revenue over/ (under) Expenditures</i>	2,394,975	1,386,358	(6,894,109)	-319.7%
<i>Cash Balance July 1</i>	16,185,863	18,580,838	19,967,196	11.1%
<i>Cash Balance June 30</i>	\$18,580,838	\$19,967,196	\$13,073,087	-13.5%

**Bond Retirement Fund.** The Bond Retirement Fund is used to account for taxes and related revenues levied to repay outstanding general obligation bonds. The School District incurred debt service expenditures of \$5,773,707 during the fiscal year and ended with a fund balance of \$11,540,490; adequate to satisfy debt service requirements due in the subsequent fiscal year.

**Permanent Improvement Fund.** The Permanent Improvement Fund is used to account for the taxes, transfers and debt proceeds dedicated toward capital outlays. The capital activity during the fiscal year included purchase of buses and playground and roofing improvements.

**Building Fund.** The Building Fund was established to account for the spending of the \$103 million Series 2015 school improvement bond proceeds. The Building Fund ended the fiscal year with a fund balance of \$7,980,320, as progress on projects near completion.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2018**  
*Unaudited*

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the School District's original and final budgets and actual results is included in the required supplementary information. During fiscal year 2018, the School District amended its General Fund budget with Hamilton County as changes occurred in School District revenues and expenditures.

Budgeted revenue increased 3% during the year to adjust for conservative estimates on taxes and intergovernmental revenue, while actual revenue came in slightly higher than budgeted.

Final budgeted expenditures decreased 3% during the fiscal year from the original budget, as management elected to transfer funds to the capital projects funds and pay for the capital activity directly from those funds. Actual General Fund expenditures were \$1,362,035 (2%) lower than the final budget. The results are attributable to conservative budgeting and our continued cost containment efforts.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2018, the School District had \$119,189,116 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 5 to the financial statements for more detail.

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

	<u>FY18</u>	<u>FY17</u>
Land	\$ 1,742,384	1,734,507
Construction in progress	83,366,505	48,437,924
Land improvements	2,045,221	1,582,574
Buildings	11,791,179	12,366,438
Buildings improvements	16,274,625	17,434,946
Furniture and equipment	896,775	1,722,284
Vehicles	3,072,427	1,689,686
Total	<u>\$ 119,189,116</u>	<u>84,968,359</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2018**  
**Unaudited**

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Net Capital Assets increased by \$34,220,757 in fiscal year 2018. Major capital assets (construction projects) completed during fiscal year 2018 included (with approximate value at June 30, 2018):

- Playground Additions (elementary schools) \$754,589

Major construction projects that were in progress at the end of fiscal year 2018 include:

- Bond Issue – Planned Renovations/Replacements:
  - Anderson High School
  - Turpin High School
  - Mercer Elementary School
  - Maddux Elementary School
  - Summit Elementary School
  - Wilson Elementary School
  - Transportation / Operations
- Turpin High School – Replacement Gym Bleachers
- Partial Roofing:
  - Maddux Elementary School
  - Sherwood Elementary School
  - Summit Elementary School
  - Central Office

### **Debt**

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

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

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

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

In May 2017, the School District issued \$3,000,000 in tax anticipation notes to finance site work at Anderson High School.

At June 30, 2018, the School District had \$98,980,000 in outstanding bonds, with \$2,185,000 due within one year. The School District's overall legal debt margin was \$20,383,059 with an unvoted debt margin of \$1,326,256 at June 30, 2018.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2018**  
*Unaudited*

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**ECONOMIC FACTORS**

- The taxpayers approved a 3.9 mil continuing operating levy in March 2012. This operating levy was projected to last three years. With careful and prudent planning and continued cost controls the School District has delayed this request for at least four additional years. The School District's current Five Year Financial Forecast (FY18-FY22) projects a deficit starting in FY21.
- The taxpayers approved a 4.45 mil (\$103 million) bond issue in November 2014. This issue significantly renovates eight schools and replaces one school. These renovations are expected to be completed by the end of 2019.
- The taxpayers approved a .5 mil Permanent Improvement levy in November 2014. These funds will be added to interest earnings to help fund ongoing capital needs throughout the School District.
- The School District secured strong Standard & Poor's (AA) and Moody's (Aa2) ratings due to moderate overall debt, experienced financial management, stable operating reserves, strong market value per capita and income levels, and strong electorate support.
- Enrollment figures impact all planning efforts of the School District including class size projections, staffing levels, facility usage/building capacities and many other long term planning efforts. Enrollment continues to be relatively stable with no significant changes projected.
- Commercial and residential property values, including new construction, continue to rebound after several challenging years.
- With continued uncertainties regarding state funding, the School District will continue to focus on controlling costs and improving operational efficiencies to maximize the life of the operating levy passed on March 2012. Some of the areas of focus/consideration are shared services, outsourcing when appropriate, increasing electronic payment processing, reducing paper processing/handling, and self-funding employee benefits.
- The School District successfully negotiated long term agreements with all three (FHTA, OAPSE #273, OAPSE #177) bargaining units. The term of all three agreements is July 1, 2017 through June 30, 2020.
- With careful financial planning and continued support from the community, management is confident that the School District will continue to provide a high quality education while maintaining a cost effective budget.

**REQUESTS FOR ADDITIONAL INFORMATION**

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
Statement of Net Position  
June 30, 2018

	Governmental Activities
<b>Assets:</b>	
Equity in pooled cash and investments	\$ 44,328,123
Receivables:	
Taxes	48,244,449
Accounts	300,131
Intergovernmental	1,258,828
Revenue in lieu of taxes	10,207,488
Interest	87,728
Restricted cash and investments	2,397,431
Nondepreciable capital assets	85,108,889
Depreciable capital assets, net	<u>34,080,227</u>
<b>Total assets</b>	<u>226,013,294</u>
<b>Deferred Outflows of Resources:</b>	
Pension	33,015,123
OPEB	<u>1,015,667</u>
<b>Total deferred outflows of resources</b>	<u>34,030,790</u>
<b>Liabilities:</b>	
Accounts payable	4,084,908
Retainage payable	2,146,793
Accrued wages and benefits payable	7,756,388
Claims payable	440,000
Intergovernmental payable	1,185,978
Accrued interest payable	328,150
Tax anticipation notes payable	2,705,000
Noncurrent liabilities:	
Due within one year	2,366,656
Due within more than one year:	
Net pension liability	102,090,367
Net OPEB liability	22,358,509
Other amounts due more than one year	<u>105,961,165</u>
<b>Total liabilities</b>	<u>251,423,914</u>
<b>Deferred Inflows of Resources:</b>	
Property taxes levied for next fiscal year	29,905,563
Revenue in lieu of taxes levied for next fiscal year	10,207,488
Pension	5,189,260
OPEB	<u>3,194,327</u>
<b>Total deferred inflows of resources</b>	<u>48,496,638</u>
<b>Net Position:</b>	
Net investment in capital assets	17,698,448
Restricted for:	
Capital projects	1,134,771
Debt service	11,371,902
Other purposes	3,199,523
Endowment:	
Expendable	15,999
Nonexpendable	718,295
Unrestricted (deficit)	<u>(74,015,406)</u>
<b>Total net position</b>	<u>\$ (39,876,468)</u>

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**

Statement of Activities  
Year Ended June 30, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$ 16,503,914	2,366,262	156,253	-	\$ (13,981,399)
Special education	6,653,438	-	2,114,463	-	(4,538,975)
Other	117,487	-	2,680	-	(114,807)
Support services:					
Pupil	2,748,194	-	94,807	-	(2,653,387)
Instructional staff	3,059,571	-	202,638	-	(2,856,933)
Board of Education	626,573	-	-	-	(626,573)
Administration	828,358	337,899	-	-	(490,459)
Fiscal	1,422,552	-	-	-	(1,422,552)
Business	82,105	-	-	-	(82,105)
Operation and maintenance of plant	7,013,847	-	-	11,821	(7,002,026)
Pupil transportation	3,881,975	-	-	-	(3,881,975)
Central	805,198	-	-	-	(805,198)
Non-instructional services:					
Extracurricular activities	1,847,324	939,907	-	-	(907,417)
Community service	571,249	-	921,569	-	350,320
Food service	2,062,618	1,669,791	617,558	-	224,731
Interest on long-term debt	3,788,043	-	-	-	(3,788,043)
<b>Total Governmental Activities</b>	<b>\$ 52,012,446</b>	<b>5,313,859</b>	<b>4,109,968</b>	<b>11,821</b>	<b>(42,576,798)</b>
<b>General Revenues:</b>					
Property taxes, levied for general purposes					41,336,845
Property taxes, levied for debt services					5,797,243
Property taxes, levied for capital projects					592,880
Revenue in lieu of taxes					10,435,686
Grants and entitlements					
not restricted to specific programs					25,215,196
Investment earnings					1,081,414
Miscellaneous					309,771
<b>Total general revenues</b>					<b>84,769,035</b>
Change in net position					42,192,237
Net position beginning of year (deficit), <i>restated</i>					(82,068,705)
Net position end of year (deficit)					\$ (39,876,468)

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**

Balance Sheet  
 Governmental Funds  
 June 30, 2018

	General	Bond Retirement	Permanent Improvement	Building	Other Governmental Funds
<b>Assets:</b>					
Equity in pooled cash and investments	\$ 13,287,543	\$ 9,440,490	\$ 6,718,534	\$ 11,723,917	\$ 3,157,639
Restricted cash and investments	250,638	-	-	2,146,793	-
Receivables:					
Taxes	41,887,177	5,756,995	600,277	-	-
Accounts	289,552	-	81	-	10,498
Accrued interest	32,771	-	24,955	26,037	3,965
Intergovernmental	479,320	-	-	-	779,508
Revenue in lieu of taxes	10,207,488	-	-	-	-
Interfund receivable	3,200,000	-	-	-	-
<b>Total assets</b>	<u>\$ 69,634,489</u>	<u>\$ 15,197,485</u>	<u>\$ 7,343,847</u>	<u>\$ 13,896,747</u>	<u>\$ 3,951,610</u>
<b>Liabilities:</b>					
Accounts payable	\$ 206,804	\$ -	\$ 103,602	\$ 3,757,495	\$ 17,007
Retainage payable	-	-	-	2,146,793	-
Accrued wages and benefits payable	7,327,717	-	-	-	428,671
Intergovernmental payable	1,169,863	-	-	-	16,115
Interfund payable	-	-	3,200,000	-	-
Claims payable	440,000	-	-	-	-
Compensated absences payable	50,588	-	-	-	4,590
Accrued interest payable	-	-	4,937	-	-
Tax anticipation notes payable	-	-	2,705,000	-	-
<b>Total liabilities</b>	<u>9,194,972</u>	<u>-</u>	<u>6,013,539</u>	<u>5,904,288</u>	<u>466,383</u>
<b>Deferred Inflows of Resources:</b>					
Property taxes levied for next fiscal year	26,019,032	3,502,370	384,161	-	-
Revenue in lieu of taxes levied for next fiscal year	10,207,488	-	-	-	-
Unavailable revenue	1,088,041	154,625	16,116	12,139	639,987
<b>Total deferred inflows of resources</b>	<u>37,314,561</u>	<u>3,656,995</u>	<u>400,277</u>	<u>12,139</u>	<u>639,987</u>
<b>Fund Balances:</b>					
Nonspendable	-	-	-	-	718,295
Restricted	250,638	11,540,490	-	7,980,320	2,324,897
Committed	-	-	930,031	-	-
Assigned	7,420,552	-	-	-	-
Unassigned	15,453,766	-	-	-	(197,952)
<b>Total fund balances</b>	<u>23,124,956</u>	<u>11,540,490</u>	<u>930,031</u>	<u>7,980,320</u>	<u>2,845,240</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 69,634,489</u>	<u>\$ 15,197,485</u>	<u>\$ 7,343,847</u>	<u>\$ 13,896,747</u>	<u>\$ 3,951,610</u>

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
Reconciliation of Total Governmental Fund Balances to  
Net Position of Governmental Activities  
June 30, 2018

<p>Total Governmental Funds</p> <hr/> <p>\$ 44,328,123 2,397,431</p> <p>48,244,449 300,131 87,728 1,258,828 10,207,488 3,200,000</p> <hr/> <p>\$ 110,024,178</p> <p>\$ 4,084,908 2,146,793 7,756,388 1,185,978 3,200,000 440,000 55,178 4,937</p> <hr/> <p>2,705,000</p> <hr/> <p>21,579,182</p> <p>29,905,563</p> <p>10,207,488 1,910,908</p> <hr/> <p>42,023,959</p> <p>718,295 22,096,345 930,031 7,420,552</p> <hr/> <p>15,255,814</p> <hr/> <p>46,421,037</p> <hr/> <p>\$ 110,024,178</p>	<p><b>Total Governmental Fund Balances</b> <span style="float: right;">\$ 46,421,037</span></p> <p><i>Amounts reported for governmental activities in the statement of net position are different because:</i></p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. <span style="float: right;">119,189,116</span></p> <p>Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. <span style="float: right;">1,910,908</span></p> <p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 60%;">General Obligation Bonds</td> <td style="width: 20%; text-align: right;">(98,980,000)</td> <td style="width: 20%;"></td> </tr> <tr> <td>Compensated Absences</td> <td style="text-align: right;">(2,476,879)</td> <td></td> </tr> <tr> <td>Unamortized Premiums</td> <td style="text-align: right;">(6,815,764)</td> <td></td> </tr> <tr> <td>Accrued interest payable</td> <td style="text-align: right;">(323,213)</td> <td></td> </tr> <tr> <td><b>Total</b></td> <td style="border-top: 1px solid black; text-align: right;"><b>(108,595,856)</b></td> <td style="text-align: right;"><b>(108,595,856)</b></td> </tr> </table> <p>The net pension and OPEB liabilities are not due and payable in the current period, therefore, the liabilities and related deferred outflows and inflows of resources are not reported in the governmental funds:</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 60%;">Deferred outflows - pension</td> <td style="width: 20%; text-align: right;">33,015,123</td> <td style="width: 20%;"></td> </tr> <tr> <td>Deferred inflows - pension</td> <td style="text-align: right;">(5,189,260)</td> <td></td> </tr> <tr> <td>Net pension liability</td> <td style="text-align: right;">(102,090,367)</td> <td></td> </tr> <tr> <td>Deferred outflows - OPEB</td> <td style="text-align: right;">1,015,667</td> <td></td> </tr> <tr> <td>Deferred inflows - OPEB</td> <td style="text-align: right;">(3,194,327)</td> <td></td> </tr> <tr> <td>Net OPEB liability</td> <td style="text-align: right;">(22,358,509)</td> <td></td> </tr> <tr> <td><b>Total</b></td> <td style="border-top: 1px solid black; text-align: right;"><b>(98,801,673)</b></td> <td style="text-align: right;"><b>(98,801,673)</b></td> </tr> </table> <p><b>Net Position of Governmental Activities</b> <span style="float: right;">\$ (39,876,468)</span></p>	General Obligation Bonds	(98,980,000)		Compensated Absences	(2,476,879)		Unamortized Premiums	(6,815,764)		Accrued interest payable	(323,213)		<b>Total</b>	<b>(108,595,856)</b>	<b>(108,595,856)</b>	Deferred outflows - pension	33,015,123		Deferred inflows - pension	(5,189,260)		Net pension liability	(102,090,367)		Deferred outflows - OPEB	1,015,667		Deferred inflows - OPEB	(3,194,327)		Net OPEB liability	(22,358,509)		<b>Total</b>	<b>(98,801,673)</b>	<b>(98,801,673)</b>
General Obligation Bonds	(98,980,000)																																				
Compensated Absences	(2,476,879)																																				
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Net OPEB liability	(22,358,509)																																				
<b>Total</b>	<b>(98,801,673)</b>	<b>(98,801,673)</b>																																			



**FOREST HILLS LOCAL SCHOOL DISTRICT**

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2018

	General	Bond Retirement	Permanent Improvement	Building	Other Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 41,400,846	\$ 5,790,616	\$ 592,911	\$ -	\$ -
Tuition and fees	2,366,262	-	-	-	-
Charges for services	337,899	-	-	-	1,669,791
Interest	(159,726)	(23,117)	636,901	690,122	34,359
Revenue in lieu of taxes	10,435,686	-	-	-	-
Intergovernmental	25,213,547	111,625	11,821	-	3,868,886
Other local revenues	991,269	411	243,888	-	960,050
<b>Total revenues</b>	<u>80,585,783</u>	<u>5,879,535</u>	<u>1,485,521</u>	<u>690,122</u>	<u>6,533,086</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	40,235,214	-	-	-	40,605
Special education	10,336,344	-	-	-	2,168,462
Other	281,414	-	-	-	2,992
Support services:					
Pupil	5,428,281	-	-	-	105,112
Instructional staff	4,970,708	-	-	-	132,815
Board of Education	629,855	-	-	-	-
Administration	5,674,421	-	-	392,780	-
Fiscal	1,618,195	-	7,995	-	-
Business	140,643	-	-	5,369	-
Operation and maintenance of plant	5,838,644	-	-	-	-
Pupil transportation	4,021,438	-	1,749,572	-	-
Central	1,226,176	-	-	-	-
Non-instructional services:					
Extracurricular activities	1,947,786	-	-	-	997,555
Community service	36,328	-	-	-	707,959
Food service	-	-	-	-	2,079,392
Capital outlay	23,530	-	2,391,425	34,860,770	8,169
Debt Service:					
Principal	-	1,830,000	65,000	-	-
Interest and fiscal charges	-	3,943,707	105,268	-	-
<b>Total expenditures</b>	<u>82,408,977</u>	<u>5,773,707</u>	<u>4,319,260</u>	<u>35,258,919</u>	<u>6,243,061</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,823,194)</u>	<u>105,828</u>	<u>(2,833,739)</u>	<u>(34,568,797)</u>	<u>290,025</u>
<b>Other financing sources (uses):</b>					
Transfers in	-	-	2,175,546	1,500,000	1,571
Transfers out	(3,677,117)	-	-	-	-
<b>Total other financing sources (uses):</b>	<u>(3,677,117)</u>	<u>-</u>	<u>2,175,546</u>	<u>1,500,000</u>	<u>1,571</u>
Net change in fund balance	(5,500,311)	105,828	(658,193)	(33,068,797)	291,596
Fund balance, beginning of year	<u>28,625,267</u>	<u>11,434,662</u>	<u>1,588,224</u>	<u>41,049,117</u>	<u>2,553,644</u>
Fund balance, end of year	<u>\$ 23,124,956</u>	<u>\$ 11,540,490</u>	<u>\$ 930,031</u>	<u>\$ 7,980,320</u>	<u>\$ 2,845,240</u>

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 Year Ended June 30, 2018

Total Governmental Funds		
\$ 47,784,373 2,366,262 2,007,690 1,178,539 10,435,686 29,205,879 2,195,618 <u>95,174,047</u>	<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ (38,829,877)
	<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
	Capital asset additions	37,687,797
	Depreciation expense	(2,531,113)
	In the statement of activities, only the loss on the sale or disposal of capital assets is reported while only proceeds from the sale of assets are reported in the funds.	(935,927)
40,275,819 12,504,806 284,406	Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows in the funds.	(29,729)
5,533,393 5,103,523 629,855	Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,895,000
6,067,201 1,626,190 146,012 5,838,644 5,771,010 1,226,176	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:	
	Compensated absences	(53,349)
	Interest on long-term debt	5,198
	Amortization of bond premiums	255,734
2,945,341 744,287 2,079,392 37,283,894	Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.	
	Pension	7,978,618
1,895,000 4,048,975	OPEB	229,535
134,003,924	Except for amounts reported as deferred outflows or inflows of resources, changes in the net pension and OPEB liabilities are reported as negative pension and OPEB expenses in the statement of activities.	
(38,829,877)	Pension	32,693,036
	OPEB	3,827,314
3,677,117 (3,677,117)	<b>Change in Net Position of Governmental Activities</b>	\$ <u>42,192,237</u>
-		
(38,829,877)		
85,250,914		
\$ 46,421,037		

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Statement of Net Position

### Fiduciary Funds

June 30, 2018

	<u>Private- Purpose Trusts</u>	<u>Agency</u>
<b>Assets</b>		
Equity in pooled cash and investments	<u>\$ 233,929</u>	<u>\$ 260,686</u>
Total assets	<u>233,929</u>	<u>260,686</u>
<b>Liabilities</b>		
Due to student groups	<u>-</u>	<u>260,686</u>
Total liabilities	<u>-</u>	<u>\$ 260,686</u>
<b>Net Position</b>		
Held in trust	<u>\$ 233,929</u>	

See accompanying notes to the basic financial statements.

# FOREST HILLS LOCAL SCHOOL DISTRICT

## Statement of Changes in Net Position

### Fiduciary Funds

Year Ended June 30, 2018

	<u>Private- Purpose Trusts</u>
<b>Additions:</b>	
Contributions	\$ <u>60,538</u>
Total additions	<u>60,538</u>
<b>Deductions:</b>	
Community gifts, awards and scholarships	<u>47,300</u>
Total deductions	<u>47,300</u>
Change in net position	13,238
Net position, beginning of year	<u>220,691</u>
Net position, end of year	\$ <u><u>233,929</u></u>

See accompanying notes to the basic financial statements.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

The following activity is included within the reporting entity:

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

**A. Reporting Entity – *continued***

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

**B. Basis of Presentation**

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The interfund services provided and used are not eliminated in the consolidation.

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

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

***Fund Financial Statements*** Fund financial statements report detailed information about the School District. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

FOREST HILLS LOCAL SCHOOL DISTRICT  
Notes to the Basic Financial Statements  
Year Ended June 30, 2018

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued*

C. Fund Accounting

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

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

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

**Bond Retirement Fund** – The Bond Retirement Fund is a debt service fund used to accumulate resources that are restricted for the payment of general long-term debt principal, interest and related costs.

**Permanent Improvement Fund** – The Permanent Improvement Fund is a capital project fund used to account for resources committed for the acquisition, construction and improvement of various capital projects.

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

Additionally, the School District reports the following fund type:

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

**D. Basis of Accounting**

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable except for unmatured principal and interest on general long-term debt which is recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

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

***Revenues - Exchange and Non-exchange transactions.*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes were levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

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

***Deferred Inflows of Resources.*** In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, revenue in lieu of taxes, unavailable revenue, pension and OPEB. Receivables for property taxes and revenue in lieu of taxes represent amounts that are measurable as of June 30, 2018, but are intended to finance 2019 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund financial statements and represents receivables that will not be collected within the available period (sixty days after fiscal year-end). Deferred inflows of resources from pension and OPEB are reported on the government-wide statement of net position (see Notes 6 and 7).

***Deferred Outflows of Resources.*** In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB (see Notes 6 and 7).

**E. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in several bank accounts. Monies for all funds are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

During fiscal year 2018, the School District's investments were comprised of State Treasury Assets Reserve of Ohio (STAR Ohio), money markets, U.S. Treasuries, negotiable certificates of deposit, commercial paper, and U.S. agency securities. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Investments in STAR Ohio are valued at the net asset value per share provided by STAR Ohio on an amortized cost basis at June 30, 2018, which approximates fair value.

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

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

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

**F. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements but are not reported in the governmental fund financial statements. The School District defines capital assets as those with an individual cost of more than \$10,000 and an estimated useful life in excess of five years. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their acquisition cost as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

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

**G. Interfund Balances**

On the fund financials, receivables and payable resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the governmental activities column in the statement of net position.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

**H. Compensated Absences**

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

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

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

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

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

**J. Pensions/Other Postemployment Benefits (OPEB)**

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

**K. Fund Balances**

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

***Nonspendable*** – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in a spendable form” criterion includes items that are not expected to be converted to cash.

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

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

***Assigned*** – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts in the general fund represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated.

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

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

**L. Restricted Assets**

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

**M. Net Position**

Net position represents the balance between assets and deferred outflows of resources, reduced by liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, donors, grantors or laws or regulations of other governments.

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

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

**N. Estimates**

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

**2. DEPOSITS AND INVESTMENTS**

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

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

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted to be deposited or invested in the following securities:

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

Deposits

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. At fiscal year-end, \$5,338,634 of the School District's bank balance of \$5,939,898 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Investments

The School District's investments at June 30, 2018 are summarized as follows:

	Balance at 6/30/18	Average Maturity (Years)	Concentration of Credit Risk
STAR Ohio	\$ 13,000,000	n/a	29.80%
U.S. Money Market Funds	8,836,967	n/a	20.26%
Negotiable CDs	6,009,053	1.78	13.77%
Commerical Paper	1,287,097	0.04	2.95%
FHLB	2,254,216	0.84	5.17%
FNMA	3,252,926	1.17	7.46%
FHLMC	5,578,156	1.24	12.79%
FFCB	3,402,526	0.26	7.80%
	<u>\$ 43,620,941</u>		<u>100.00%</u>

*Credit Risk*

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

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a failure of a counter party, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment securities are registered in the name of the School District.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

*Concentration of Credit Risk*

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

*Interest Rate Risk*

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

Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The School District has the following recurring fair value measurements as of June 30, 2018:

	Balance at 6/30/18	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by Fair Value Level</u>				
Negotiable CDs	\$ 6,009,053	\$ -	\$ 6,009,053	\$ -
Commerical Paper	1,287,097	-	1,287,097	-
U.S. Agency Obligations	14,487,824	-	14,487,824	-
STAR Ohio (net asset value)	13,000,000	N/A	N/A	N/A
U.S. Money Markets (amortized cost)	8,836,967	N/A	N/A	N/A
Total	<u>\$ 43,620,941</u>	<u>\$ -</u>	<u>\$ 21,783,974</u>	<u>\$ -</u>

Investments classified in Level 2 of the fair value hierarchy are valued using pricing sources as provided by the investment managers.

**3. PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of the prior January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

**3. PROPERTY TAXES—continued**

Public utility property tax revenue received in calendar year 2018 represent collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in calendar year 2018 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from the Hamilton County Auditor, who periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018 are available to finance fiscal year 2018 operations.

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes, which became measurable as of June 30, 2018. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2018, was \$14,800,000 in the General Fund, \$2,100,000 in the Debt Service Fund, and \$200,000 in the Permanent Improvement Fund.

The assessed values upon which fiscal year 2018 taxes were collected are:

	<u>2017 Second- Half Collections</u>		<u>2018 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 1,241,226,620	97.45%	1,292,272,940	97.44%
Public Utility Tangible Personal Property	<u>32,497,500</u>	2.55%	<u>33,983,270</u>	2.56%
Total Assessed Value	\$ <u>1,273,724,120</u>	100.00%	<u>1,326,256,210</u>	100.00%
 Tax rate per \$1,000 of assessed valuation		 \$68.81		 \$68.81

**4. INTERFUND TRANSACTIONS**

Interfund transactions at June 30, 2018 consisted of the following:

	<u>Interfund</u>		<u>Transfers</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$ 3,200,000	\$ -	\$ -	\$ 3,677,117
Permanent Improvement Fund	-	3,200,000	2,175,546	-
Building Fund	-	-	1,500,000	-
Other Governmental Funds	-	-	1,571	-
Total	<u>\$ 3,200,000</u>	<u>\$ 3,200,000</u>	<u>\$ 3,677,117</u>	<u>\$ 3,677,117</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
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**4. INTERFUND TRANSACTIONS—continued**

Interfund receivables/payables were made to provide temporary funding for capital activity. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or (2) use unrestricted revenues collected in the general fund to finance various programs and capital activity accounted for in other funds in accordance with budgetary authorizations.

**5. CAPITAL ASSETS**

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

	Balance 7/1/17	Additions	Disposals	Balance 6/30/18
<b>Governmental Activities</b>				
<b>Nondepreciable:</b>				
Land	\$ 1,734,507	14,877	(7,000)	1,742,384
Construction in progress	<u>48,437,924</u>	<u>35,683,170</u>	<u>(754,589)</u>	<u>83,366,505</u>
Subtotal	<u>50,172,431</u>	<u>35,698,047</u>	<u>(761,589)</u>	<u>85,108,889</u>
<b>Depreciable:</b>				
Land improvements	5,409,008	754,589	(24,013)	6,139,584
Buildings	31,228,006	-	-	31,228,006
Building improvements	32,496,465	71,831	(9,551)	32,558,745
Equipment and furniture	4,137,234	204,831	(2,571,617)	1,770,448
Vehicles	<u>5,422,183</u>	<u>1,713,088</u>	<u>(209,598)</u>	<u>6,925,673</u>
Subtotal	<u>78,692,896</u>	<u>2,744,339</u>	<u>(2,814,779)</u>	<u>78,622,456</u>
Totals at historical cost	<u>128,865,327</u>	<u>38,442,386</u>	<u>(3,576,368)</u>	<u>163,731,345</u>
Less accumulated depreciation:				
Land improvements	3,826,434	286,274	(18,345)	4,094,363
Buildings	18,861,568	575,259	-	19,436,827
Building improvements	15,061,519	1,224,035	(1,434)	16,284,120
Equipment and furniture	2,414,950	130,547	(1,671,824)	873,673
Vehicles	<u>3,732,497</u>	<u>314,998</u>	<u>(194,249)</u>	<u>3,853,246</u>
Total accumulated depreciation	<u>43,896,968</u>	<u>2,531,113</u>	<u>(1,885,852)</u>	<u>44,542,229</u>
Capital assets, net	\$ <u>84,968,359</u>	<u>35,911,273</u>	<u>(1,690,516)</u>	<u>119,189,116</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**5. CAPITAL ASSETS—*continued***

Depreciation expense was charged to functions as follows:

Instruction:		
Regular	\$	1,609,107
Special education		107,259
Other		1,082
Support services:		
Pupil		3,422
Instructional staff		45,545
Administration		58,084
Business		560
Operation and maintenance of plant		32,189
Pupil transportation		302,344
Central		17,400
Community service		14,429
Extracurricular activities		240,698
Food service		<u>98,994</u>
Total depreciation expense	\$	<u>2,531,113</u>

**6. PENSION PLANS**

***Net Pension Liability***

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

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

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

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

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

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

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

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

Age and service requirements for retirement are as follows:

Benefits	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 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% for the first 30 years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

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

**Funding Policy** – Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the 14% employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$1,538,294 for fiscal year 2018.

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

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

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

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

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

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

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

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

***Funding Policy*** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14% of their annual covered salary. The School District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was approximately \$6,440,324 for fiscal year 2018. Of this amount, \$1,013,416 is reported as an intergovernmental payable.

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

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

**6. PENSION PLANS—continued**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 19,175,029	\$ 82,915,338	\$ 102,090,367
Proportion of the Net Pension Liability	0.3209%	0.3490%	
Change in Proportion	-0.0200%	-0.0052%	
Negative Pension Expense	\$ (987,418)	\$ (31,705,618)	\$ (32,693,036)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 825,227	\$ 3,201,801	\$ 4,027,028
Change in assumptions	991,556	18,134,496	19,126,052
Change in School District's proportionate share and contributions	5,337	1,878,088	1,883,425
School District's contributions subsequent to the measurement date	1,538,294	6,440,324	7,978,618
Total Deferred Outflows of Resources	<u>\$ 3,360,414</u>	<u>\$ 29,654,709</u>	<u>\$ 33,015,123</u>

<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$ -	\$ 668,264	\$ 668,264
Net difference between projected and actual earnings on pension plan investments	91,020	2,736,302	2,827,322
Change in School District's proportionate share and contributions	712,062	981,612	1,693,674
Total Deferred Inflows of Resources	<u>\$ 803,082</u>	<u>\$ 4,386,178</u>	<u>\$ 5,189,260</u>

\$7,978,618 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ 466,697	\$ 4,083,708	\$ 4,550,405
2020	895,865	7,806,024	8,701,889
2021	103,486	5,706,695	5,810,181
2022	(447,010)	1,231,780	784,770
	<u>\$ 1,019,038</u>	<u>\$ 18,828,207</u>	<u>\$ 19,847,245</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**6. PENSION PLANS—*continued***

***Actuarial Assumptions - SERS***

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

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

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

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

Wage Inflation	3.00%
Future Salary Increases, including Inflation	3.50% to 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

The actuarial assumptions used were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015 adopted by the Board on April 21, 2016.



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**6. PENSION PLANS—continued**

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 asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
U.S. Stocks	22.50	4.75
Non-U.S. Stock	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Estate	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

**Discount Rate** – Total pension liability was calculated using the discount rate of 7.5%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.5%). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5%, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%), or one percentage point higher (8.5%) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$26,609,956	\$19,175,029	\$12,946,760

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**6. PENSION PLANS—continued**

**Actuarial Assumptions - STRS**

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement as follows:

<b>Assumptions</b>	<b>July 1, 2017 Valuation</b>	<b>July 1, 2016 Valuation and prior</b>
Inflation	2.50%	2.75%
Salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment rate of return, Including inflation	7.45%, net of investment expenses	7.75%. net of investment expenses
Payroll increases	3.00%	3.50% per annum compounded annually for the next two years, 4.00% thereafter
Cost-of-living adjustments	0% effective July 1, 2017	2% simple for members retiring before August 1, 2013, 2% per year; for members retiring August 1, 2013 or later, 2% COLA commences on 5 <sup>th</sup> anniversary of retirement date
Mortality tables	RP-2014	RP-2000

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

The actuarial assumptions were based on the results of an actual experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board.

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

The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	6.84 %

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

**Discount Rate** – The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$118,856,316	\$82,915,338	\$52,640,452

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**6. PENSION PLANS—*continued***

**Social Security System**

All employees not covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2018, one of the members of the Board of Education has elected social security. The Board's liability is 6.2% of wages paid.

**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) PLANS**

***Net OPEB Liability***

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

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

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

GASB Statement No. 75 assumes the liability is solely the obligation of the employer because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) PLANS—*continued***

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

*Health Care Plan Description*—The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB Statement No. 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

*Funding Policy*—State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, the minimum compensation amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$172,562.

The surcharge, added to the 0.5% allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$229,535 for fiscal year 2018.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) PLANS—*continued***

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

*Plan Description*—The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

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

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$ 8,740,234	\$ 13,618,275	\$ 22,358,509
Proportion of the Net OPEB Liability	0.3257%	0.3490%	
Change in Proportion	-0.0190%	-0.0052%	
(Negative) OPEB Expense	\$ 368,157	\$ (4,195,471)	\$ (3,827,314)

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) PLANS—*continued***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ -	\$ 786,132	\$ 786,132
School District's contributions subsequent to the measurement date	<u>229,535</u>	<u>-</u>	<u>229,535</u>
Total Deferred Outflows of Resources	<u>\$ 229,535</u>	<u>\$ 786,132</u>	<u>\$ 1,015,667</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on OPEB plan investments	\$ 23,080	\$ 582,076	\$ 605,156
Change in assumptions	829,402	1,096,998	1,926,400
Change in School District's proportionate share and contributions	<u>423,329</u>	<u>239,442</u>	<u>662,771</u>
Total Deferred Inflows of Resources	<u>\$ 1,275,811</u>	<u>\$ 1,918,516</u>	<u>\$ 3,194,327</u>

\$229,535 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ (459,658)	\$ (237,237)	\$ (696,895)
2020	(459,658)	(237,237)	(696,895)
2021	(350,725)	(237,237)	(587,962)
2022	(5,770)	(237,237)	(243,007)
2023	-	(91,718)	(91,718)
2024	-	(91,718)	(91,718)
	<u>\$ (1,275,811)</u>	<u>\$ (1,132,384)</u>	<u>\$ (2,408,195)</u>

**Actuarial Assumptions – SERS**

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) PLANS—*continued***

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 consider the employee's entire career with the employer and take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

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

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

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

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



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) PLANS—*continued***

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

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
U.S. Stocks	22.50	4.75
Non-U.S. Stock	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Estate	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

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

**Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and the Health Care Cost Trend Rates** – The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability calculated using the discount rate of 3.63%, as well as what the School District’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.63%) and one percentage point higher (4.63%) than the current rate.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) PLANS—*continued***

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's proportionate share of the net OPEB liability	\$10,554,945	\$8,740,234	\$7,302,519

The following table presents the net OPEB liability calculated using current health care cost trend rates, as well as what the School District's net OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower (6.5% decreasing to 4.0%) and one percentage point higher (8.5% decreasing to 6.0%) than the current rates.

	1% Decrease 6.5% decreasing to 4.0%)	Current Discount Rate 7.5% decreasing to 5.0%)	1% Increase 8.5% decreasing to 6.0%)
School District's proportionate share of the net OPEB liability	\$7,092,044	\$8,740,234	\$10,921,640

***Actuarial Assumptions - STRS***

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

Inflation	2.50%
Salary increases	12.50% at age 20 to 2.50% at age 65
Payroll increases	3.00%
Blended discount rate of return	4.13%
Investment rate of return	7.45%, net of investment expenses, including inflation
Health care cost trends	6% - 11% initially, 4.50% ultimate
Cost-of-living adjustments	0% effective July 1, 2017

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

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

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) PLANS—*continued***

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

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

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	6.84 %

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) PLANS—*continued***

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's proportionate share of the net OPEB liability	\$18,282,316	\$13,618,275	\$9,932,159
	1% Decrease	Current Trend Rates	1% Increase
School District's proportionate share of the net OPEB liability	\$9,461,394	\$13,618,275	\$19,089,218

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**8. RISK MANAGEMENT**

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

The School District provides medical, prescription drug, vision, dental, life and other group insurance coverage through its participation in the Southwest Ohio Organization of School Health (SWOOSH) consortium (see Note 14). Health insurance is offered through Anthem Blue Cross Blue Shield on a self-insured basis. Each SWOOSH member district retains its own plan, but the self-funding is an aggregate of the estimated claims and reserve build.

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

A summary of the changes in the self-insurance workers' compensation claims liability during fiscal years 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Claims liability at July 1	\$ 390,850	\$ 388,082
Claims incurred	171,911	95,535
Claims paid	<u>(122,761)</u>	<u>(92,767)</u>
Claims liability at June 30	<u>\$ 440,000</u>	<u>\$ 390,850</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

**9. EMPLOYEE BENEFITS**

**Compensated Absences**

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

**10. TAX ANTICIPATION NOTES**

In May 2017, the School District issued \$3 million in tax anticipation notes to finance capital improvements. The notes were issued with an interest rate of 2.19% and matures on December 1, 2026.

	Principal Outstanding 7/1/17	Additions	Reductions	Principal Outstanding 6/30/18
<b>Governmental Activities:</b>				
2.19% Tax anticipation notes	\$ 3,000,000	\$ -	\$ (295,000)	\$ 2,705,000

**11. LONG-TERM OBLIGATIONS**

Long-term liability activity for the year ended June 30, 2018 was as follows:

	<i>Restated</i> Principal Outstanding 7/1/17	Additions	Reductions	Principal Outstanding 6/30/18	Amounts Due in One Year
<b>Governmental Activities:</b>					
General obligation bonds	\$ 100,875,000	\$ -	\$ (1,895,000)	\$ 98,980,000	\$ 2,185,000
Add issuance premium	7,071,498	-	(255,734)	6,815,764	-
Compensated absences	2,933,538	246,935	(648,416)	2,532,057	181,656
Net pension liability:					
STRS	118,582,833	-	35,667,495	82,915,338	-
SERS	24,950,009	-	5,774,980	19,175,029	-
	<u>143,532,842</u>	<u>-</u>	<u>41,442,475</u>	<u>102,090,367</u>	<u>-</u>
Net OPEB liability:					
STRS	18,946,130	-	5,327,855	13,618,275	-
SERS	9,825,394	-	1,085,160	8,740,234	-
	<u>28,771,524</u>	<u>-</u>	<u>6,413,015</u>	<u>22,358,509</u>	<u>-</u>
Total	<u>\$ 283,184,402</u>	<u>\$ 246,935</u>	<u>\$ 45,056,340</u>	<u>\$ 232,776,697</u>	<u>\$ 2,366,656</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

**General Obligation Bonds**

On September 24, 2013, the School District issued \$3,060,000 of Series 2013 general obligation refunding bonds to refund \$3,085,000 of the Series 2003 bonds. The purpose of the original bonds was to finance the construction of a junior high school. The Series 2013 bonds bear interest rates of 1.7% to 4.0% and mature on December 1, 2018.

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

**Convertible Bonds**

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

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$20,383,059 with an unvoted debt margin of \$1,326,256 at June 30, 2018.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 2,185,000	\$ 3,859,031	\$ 6,044,031
2020	2,005,000	3,824,022	5,829,022
2021	2,035,000	3,787,900	5,822,900
2022	2,215,000	3,744,806	5,959,806
2023	2,260,000	3,677,540	5,937,540
2024-2028	12,715,000	16,942,540	29,657,540
2029-2033	15,345,000	14,182,769	29,527,769
2034-2038	17,970,000	11,147,468	29,117,468
2039-2043	21,380,000	7,612,663	28,992,663
2044-2047	20,870,000	2,150,750	23,020,750
Total	<u>\$ 98,980,000</u>	<u>\$ 70,929,489</u>	<u>\$ 169,909,489</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

**12. FUND BALANCES**

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

Fund Balances	General	Bond Retirement	Permanent Improvement	Building	Other Governmental Funds	Total Governmental Funds
<b><i>Nonspendable</i></b>						
Scholarships	\$ -	\$ -	\$ -	\$ -	\$ 718,295	\$ 718,295
<b><i>Restricted for</i></b>						
Food Service Operations	-	-	-	-	1,671,551	1,671,551
Athletics	-	-	-	-	341,476	341,476
Auxilliary Schools	-	-	-	-	195,089	195,089
Federal Grant Programs	-	-	-	-	70,830	70,830
Other Purposes	250,638	-	-	-	45,951	296,589
Debt Service Payments	-	11,540,490	-	-	-	11,540,490
Capital Improvements	-	-	-	7,980,320	-	7,980,320
<b><i>Total Restricted</i></b>	<b>250,638</b>	<b>11,540,490</b>	<b>-</b>	<b>7,980,320</b>	<b>2,324,897</b>	<b>22,096,345</b>
<b><i>Committed to</i></b>						
Capital Improvements	-	-	930,031	-	-	930,031
<b><i>Total Committed</i></b>	<b>-</b>	<b>-</b>	<b>930,031</b>	<b>-</b>	<b>-</b>	<b>930,031</b>
<b><i>Assigned to</i></b>						
Budget Resource	5,952,786	-	-	-	-	5,952,786
Encumbrances	1,150,777	-	-	-	-	1,150,777
Other Purposes	316,989	-	-	-	-	316,989
<b><i>Total Assigned</i></b>	<b>7,420,552</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,420,552</b>
<b><i>Unassigned (Deficit)</i></b>	<b>15,453,766</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(197,952)</b>	<b>15,255,814</b>
<b><i>Total Fund Balance</i></b>	<b>\$ 23,124,956</b>	<b>\$ 11,540,490</b>	<b>\$ 930,031</b>	<b>\$ 7,980,320</b>	<b>\$ 2,845,240</b>	<b>\$ 46,421,037</b>



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**12. FUND BALANCES—continued**

At June 30, 2018, the following funds had deficit fund balances:

Other Governmental Funds:	
IDEA, Part B Fund	\$196,216
IDEA Preschool Grant Fund	1,736

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

**13. OPERATING LEASES**

The School District leases various equipment and modular classrooms under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases totaled \$257,991 for the year ended June 30, 2018. The future minimum lease payments under the leases as of June 30, 2018 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2019	\$ 66,336
2020	<u>50,166</u>
	<u>\$ 116,502</u>

**14. JOINTLY GOVERNED ORGANIZATIONS**

**The Hamilton Clermont Cooperative**

The Hamilton Clermont Cooperative (HCC) is a jointly governed organization among a two-county consortium of school districts. HCC is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The executive committee is the managerial body responsible for directing and supervising the daily operation of HCC. The executive committee is composed of up to 12 members; two superintendents from each county, the superintendent from each county educational service center (ESC), one treasurer from each county, and the treasurer from each county ESC serving as non-voting ex officio members. The School District paid approximately \$144,000 for services provided during fiscal year 2018. To obtain financial information, write to HCC at 1007 Cottonwood Drive, Loveland, Ohio 45140.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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

**Unified Purchasing Cooperative of the Ohio River Valley**

The Unified Purchasing Cooperative of the Ohio River Valley (UPC) is a council of governments joined formed for the purpose of pooling purchasing power in order to obtain the best prices for quality products and services. The UPC is governed by a Board of Directors that includes: one representative each from Hamilton County, Clermont County, Butler County, Kentucky and Indiana; one at-large representative from a public school district with an enrollment greater than 5,000 students; the superintendent of the Hamilton County Educational Service Center; and the superintendent of the Clermont County Educational Service Center. Complete financial statements for UPC can be obtained from their administrative offices 7615 Harrison Avenue, Cincinnati, Ohio 45231.

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

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

**Southwest Ohio Organization of School Health**

The School District is a participant in the Southwest Ohio Organization of School Health (SWOOSH) consortium. SWOOSH is a health and wellness consortium for school districts and government agencies, providing medical, prescription drug, vision, dental, life and/or other group insurance coverage. Each district has its own plan design, individual rates for plans based on performance and wellness plans geared toward each district's participants. Currently, SWOOSH includes eight school districts and 3,900 enrolled employees. SWOOSH is governed by a Board of Directors comprised of the Superintendent or a designee from each district. The Board exercises total control over the operations of SWOOSH including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board. The fiscal agent for SWOOSH is the Hamilton County Educational Service Center. Financial information can be obtained from Debbie Caudle, Treasurer of the Milford Exempted Village School District at 777 Garfield Avenue, Milford, OH 45150.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**15. CONTINGENCIES**

**Federal and State Funding**

The School District received financial assistance from Federal and state agencies in the form of grants. The expenditures of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of such disallowed claims on the overall financial position of the School District at June 30, 2018, if applicable, cannot be determined at this time.

**School Foundation**

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

**Litigation**

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

**16. REQUIRED SET-ASIDES**

The School District is required by State Statute to annually set aside in the general fund an amount based on the statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Although no longer required by state statute, a budget stabilization reserve may still be set aside at the discretion of the School District.

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**16. REQUIRED SET-ASIDES—*continued***

	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside reserve balance June 30, 2017	\$ -	\$ 250,638
Current year set-aside requirement	1,265,449	-
Current year qualifying expenditures	<u>(6,814,320)</u>	<u>-</u>
Total	<u>(5,548,871)</u>	<u>250,638</u>
Balance carried forward to FY2019	<u>\$ -</u>	<u>\$ 250,638</u>
Set-aside reserve balance June 30, 2018	<u>\$ -</u>	<u>\$ 250,638</u>

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

**17. CONTRACTUAL COMMITMENTS**

**Construction Contracts**

As of June 30, 2018, the School District had entered into various construction contracts for renovations and improvements under which it had a remaining unperformed and unpaid total commitment of approximately \$976,000 in the General Fund, \$1,166,000 in the Permanent Improvement Fund, \$13,440,000 in the Building Fund, and \$86,000 in Other Governmental Funds.

**Encumbrances**

The School District utilizes encumbrance accounting to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At June 30, 2018, the amount of encumbrances expected to be honored upon performance by the respective vendors in the next fiscal year were as follows:

General Fund	\$ 1,320,966
Permanent Improvement Fund	1,818,594
Building Fund	13,439,884
Other Governmental Funds	216,082
	<u>\$ 16,795,526</u>

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2018**

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**18. CHANGE IN ACCOUNTING PRINCIPLE**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expenses. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

	<u>Governmental Activities</u>
Net Position at June 30, 2017	\$ (53,474,687)
Adjustments:	
Net OPEB liability	(28,771,524)
Deferred outflow - payments subsequent to measurement date	<u>177,506</u>
Restated Net Position at June 30, 2017	<u>\$ (82,068,705)</u>

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

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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## FOREST HILLS LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

General Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues:</b>				
Taxes	\$ 40,938,323	\$ 42,751,226	\$ 42,751,526	300
Tuition and fees	1,645,000	1,645,000	1,877,073	232,073
Interest	35,000	35,000	12,090	(22,910)
Intergovernmental	24,663,004	25,312,009	25,364,708	52,699
Revenue in lieu of taxes	10,454,117	10,454,117	10,435,686	(18,431)
Other local revenues	448,000	448,000	392,356	(55,644)
<b>Total revenues</b>	<u>78,183,444</u>	<u>80,645,352</u>	<u>80,833,439</u>	<u>188,087</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	40,095,324	41,049,936	40,346,581	703,355
Special education	10,433,620	10,320,654	10,341,710	(21,056)
Other instruction	1,375,144	317,711	289,626	28,085
Support services:				
Pupil	5,732,818	5,676,630	5,430,851	245,779
Instructional staff	5,112,974	5,319,385	5,445,432	(126,047)
Board of Education	68,031	676,521	692,417	(15,896)
Administration	5,951,789	5,392,710	5,320,444	72,266
Fiscal	1,560,637	1,688,551	1,629,095	59,456
Business	261,850	175,246	155,687	19,559
Operation and maintenance of plant	5,925,049	6,003,507	5,937,363	66,144
Pupil transportation	4,871,165	4,002,757	3,854,992	147,765
Central	1,317,140	1,159,623	1,091,442	68,181
Non-instructional services:				
Community services	78,354	78,354	35,206	43,148
Extracurricular activities	2,051,325	2,050,350	1,979,054	71,296
Capital outlay	1,525,486	23,530	23,530	-
<b>Total expenditures</b>	<u>86,360,706</u>	<u>83,935,465</u>	<u>82,573,430</u>	<u>1,362,035</u>
Deficiency of revenues under expenditures	(8,177,262)	(3,290,113)	(1,739,991)	1,550,122
<b>Other financing sources (uses):</b>				
Transfers out	(400,000)	(3,827,117)	(3,827,117)	-
Advances out	-	(3,200,000)	(3,200,000)	-
Other financing sources	250,000	250,000	613,041	363,041
Other financing uses	(2,500)	(624)	(624)	-
<b>Total other financing sources (uses):</b>	<u>(152,500)</u>	<u>(6,777,741)</u>	<u>(6,414,700)</u>	<u>363,041</u>
Net change in fund balance	(8,329,762)	(10,067,854)	(8,154,691)	\$ 1,913,163
Fund balance, beginning of year	17,553,350	17,553,350	17,553,350	
Prior year encumbrances appropriated	2,413,847	2,413,847	2,413,847	
Fund balance, end of year	<u>\$ 11,637,435</u>	<u>\$ 9,899,343</u>	<u>\$ 11,812,506</u>	

See accompanying notes to required supplementary information.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
 Required Supplementary Information  
 Schedule of School District's Proportionate Share of the Net Pension Liability  
 School Employees Retirement System of Ohio  
 Last Five Years (1) (2)

	2018	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.3209%	0.3409%	0.3366%	0.3395%	0.3395%
School District's Proportionate Share of the Net Pension Liability	\$ 19,175,029	\$ 24,950,009	\$ 19,206,488	\$ 17,183,572	\$ 20,190,938
School District's Covered Payroll	\$ 12,962,436	\$ 12,224,750	\$ 12,849,059	\$ 9,965,823	\$ 9,874,559
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	147.93%	204.09%	149.48%	172.43%	204.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each fiscal year were determined as of the School District's measurement date, which is the prior fiscal year-end.

**Notes to Schedule:**

*Change in assumptions.* In 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended June 30, 2015. Significant changes included a reduction of the discount rate from 7.75% to 7.50%, a reduction in the wage inflation rate from 3.25% to 3.00%, a reduction in the payroll growth assumption used from 4.00% to 3.50%, reduction in the assumed real wage growth rate from 0.75% to 0.50%, update of the rates of withdrawal, retirement and disability to reflect recent experience, and transition from the RP-2000 mortality tables to the RP-2014 mortality tables for active members and service retired members and beneficiaries.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
 Required Supplementary Information  
 Schedule of School District's Proportionate Share of the Net Pension Liability  
 State Teachers Retirement System of Ohio  
 Last Five Years (1) (2)

	2018	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.3490%	0.3543%	0.3417%	0.3428%	0.3428%
School District's Proportionate Share of the Net Pension Liability	\$ 82,915,338	\$ 118,582,833	\$ 94,422,122	\$ 83,388,111	\$ 99,331,372
School District's Covered Payroll	\$ 41,580,450	\$ 39,162,093	\$ 36,656,393	\$ 37,722,192	\$ 38,348,631
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	199.41%	302.80%	257.59%	221.06%	259.02%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.78%	72.09%	74.70%	69.30%

(1) Information prior to 2014 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each fiscal year were determined as of the School District's measurement date, which is the prior fiscal year-end.

**Notes to Schedule:**

*Change in assumptions.* In 2018, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended June 30, 2016. Significant changes included a reduction of the discount rate from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0/25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

*Change in benefit terms.* Effective July 1, 2017, the COLA was reduced to zero.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
 Required Supplementary Information  
 Schedule of School District Pension Contributions  
 School Employees Retirement System of Ohio  
 Last Six Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contributions	\$ 1,538,294	\$ 1,814,741	\$ 1,711,465	\$ 1,693,506	\$ 1,381,263
Contributions in Relation to the Contractually Required Contributions	<u>\$ (1,538,294)</u>	<u>\$ (1,814,741)</u>	<u>\$ (1,711,465)</u>	<u>\$ (1,693,506)</u>	<u>\$ (1,381,263)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered Payroll	\$ 11,394,770	\$ 12,962,436	\$ 12,224,750	\$ 12,849,059	\$ 9,965,823
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%	13.86%
	<u>2013</u>				
Contractually Required Contributions	\$ 1,366,639				
Contributions in Relation to the Contractually Required Contributions	<u>\$ (1,366,639)</u>				
Contribution Deficiency (Excess)	<u>\$ -</u>				
School District Covered Payroll	\$ 9,874,559				
Contributions as a Percentage of Covered Payroll	13.84%				

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
 Required Supplementary Information  
 Schedule of School District Pension Contributions  
 State Teachers Retirement System of Ohio  
 Last Six Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contributions	\$ 6,440,324	\$ 5,821,263	\$ 5,482,693	\$ 5,131,895	\$ 4,903,885
Contributions in Relation to the Contractually Required Contributions	<u>\$ (6,440,324)</u>	<u>\$ (5,821,263)</u>	<u>\$ (5,482,693)</u>	<u>\$ (5,131,895)</u>	<u>\$ (4,903,885)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered Payroll	\$ 46,002,314	\$ 41,580,450	\$ 39,162,093	\$ 36,656,393	\$ 37,722,192
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%
	<u>2013</u>				
Contractually Required Contributions	\$ 4,985,322				
Contributions in Relation to the Contractually Required Contributions	<u>\$ (4,985,322)</u>				
Contribution Deficiency (Excess)	<u>\$ -</u>				
School District Covered Payroll	\$ 38,348,631				
Contributions as a Percentage of Covered Payroll	13.00%				

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

**FOREST HILLS LOCAL SCHOOL DISTRICT**

Required Supplementary Information  
Schedule of School District's Proportionate Share of the Net OPEB Liability  
School Employees Retirement System of Ohio  
Last Two Years (1) (2)

	<u>2018</u>	<u>2017</u>
School District's Proportion of the Net OPEB Liability	0.3257%	0.3447%
School District's Proportionate Share of the Net OPEB Liability	\$ 8,740,234	\$ 9,825,394
School District's Covered Payroll	\$ 12,962,436	\$ 12,224,750
School District's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll	67.43%	80.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each fiscal year were determined as of the School District's measurement date, which is the prior fiscal year-end.

**Notes to Schedule:**

*Change in assumption.* Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal Year 2018	3.56%
Fiscal Year 2017	2.92%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Fiscal Year 2018	3.63%
Fiscal Year 2017	2.98%

**FOREST HILLS LOCAL SCHOOL DISTRICT**

Required Supplementary Information  
 Schedule of School District's Proportionate Share of the Net OPEB Liability  
 State Teachers Retirement System of Ohio  
 Last Two Years (1) (2)

	<u>2018</u>	<u>2017</u>
School District's Proportion of the Net OPEB Liability	0.3490%	0.3543%
School District's Proportionate Share of the Net OPEB Liability	\$ 13,618,275	\$ 18,946,130
School District's Covered Payroll	\$ 41,580,450	\$ 39,162,093
School District's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll	32.75%	48.38%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.11%	37.30%

- (1) Information prior to 2017 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.
- (2) Amounts presented for each fiscal year were determined as of the School District's measurement date, which is the prior fiscal year-end.

**Notes to Schedule:**

*Change in assumption.* For fiscal year 2018, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, and the long-term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

**FOREST HILLS LOCAL SCHOOL DISTRICT**  
 Required Supplementary Information  
 Schedule of School District OPEB Contributions  
 School Employees Retirement System of Ohio  
 Last Three Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contributions (2)	\$ 229,535	\$ 177,506	\$ 171,204
Contributions in Relation to the Contractually Required Contributions	<u>\$ (229,535)</u>	<u>\$ (177,506)</u>	<u>\$ (171,204)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered Payroll	\$ 11,394,770	\$ 12,962,436	\$ 12,224,750
Contributions as a Percentage of Covered Payroll (2)	2.01%	1.37%	1.40%

(1) The School District elected not to present information prior to 2016. The School District will continue to present information for years available until a full ten-year trend is compiled

(2) Includes Surcharge



**FOREST HILLS LOCAL SCHOOL DISTRICT**  
 Required Supplementary Information  
 Schedule of School District OPEB Contributions  
 State Teachers Retirement System of Ohio  
 Last Three Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contributions (2)	\$ -	\$ -	\$ -
Contributions in Relation to the Contractually Required Contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered Payroll	\$ 46,002,314	\$ 41,580,450	\$ 39,162,093
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%

(1) The School District elected not to present information prior to 2016. The School District will continue to present information for years available until a full ten-year trend is compiled

(2) The retirement system allocated the entire employer contribution rate toward pension benefits

# FOREST HILLS LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information  
Year Ended June 30, 2018

## Note A Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

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

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

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

Net change in fund balance - GAAP Basis	\$	<u>General</u> (5,500,311)
Increase / (decrease):		
Due to inclusion of Uniform School Supply Fund		(55,129)
Due to inclusion of Adult Education Fund		3,555
Due to inclusion of Public School Support Fund		(11,267)
Due to inclusion of Underground Storage Fund		11,000
Due to inclusion of Workers' Compensation Self-Insurance Fund		15,137
Due to revenues		1,081,628
Due to expenditures		209,245
Due to other sources (uses)		(2,587,583)
Due to encumbrances		<u>(1,320,966)</u>
Net change in fund balance - Budget Basis	\$	<u>(8,154,691)</u>

**FOREST HILLS SCHOOL DISTRICT  
HAMILTON COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> <b>Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	N/A	\$ 87,669
Cash Assistance:			
School Breakfast Program	10.553	3L70	18,471
National School Lunch Program	10.555	3L60	<u>439,898</u>
Total U.S. Department of Agriculture - Total Child Nutrition Cluster			<u><b>546,038</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies:			
Title I-A Improving Basic Programs	84.010	S010A170035	73,833
Title I-A Improving Basic Programs	84.010	S010A180035	755,416
Title I-D Delinquency Grant	84.010	S010A170035	<u>13,493</u>
Total Title I Grants to Local Educational Agencies			842,742
Special Education Cluster:			
Special Education Grants to States (IDEA Part B)	84.027	H027A170111	149,355
Special Education Grants to States (IDEA Part B)	84.027	H027A180111	1,212,601
Special Education Preschool Grant	84.173	H173A170119	1,715
Special Education Preschool Grant	84.173	H173A180119	<u>29,279</u>
Total Special Education Cluster			1,392,950
English Language Acquisition State Grants	84.365	S365A170035	10,202
English Language Acquisition State Grants	84.365	S365A180035	<u>10,015</u>
Total English Language Acquisition State Grants			20,217
Improving Teacher Quality State Grants	84.367	S367A170034	14,491
Improving Teacher Quality State Grants	84.367	S367A180034	<u>101,460</u>
Total Supporting Effective Instruction State Grants			115,951
Student Support and Academic Enrichment Program	84.424A	S424A180036	<u>4,667</u>
Total U.S. Department of Education			<u><b>2,376,527</b></u>
<b>Total Federal Awards Expenditures</b>			<u><u><b>\$ 2,922,565</b></u></u>

*See accompanying Notes to the Schedule of Expenditures of Federal Awards.*

**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Forest Hills Local School District's (the District's) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements 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 or changes in net position of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following 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 expends federal monies first.

**NOTE D – FOOD DONATION PROGRAM**

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

# OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Forest Hills Local School District, Hamilton County, Ohio (the District) as of and for the ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 22, 2019, wherein we noted the District adopted Governmental Accounting Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



**Keith Faber**  
Ohio Auditor of State

Columbus, Ohio

January 22, 2019

# OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

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

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

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

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

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

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

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

***Opinion on Major Federal Program***

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

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

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

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

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

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



**Keith Faber**  
Ohio Auditor of State

Columbus, Ohio

January 22, 2019



**FOREST HILLS LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR §200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Grants to Local Educational Agencies; CFDA # 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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# OHIO AUDITOR OF STATE KEITH FABER



**FOREST HILLS LOCAL SCHOOL DISTRICT**

**HAMILTON COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 5, 2019**