

FAIRFIELD CITY SCHOOL DISTRICT

Basic Financial Statements

Year Ended June 30, 2017

With Independent Auditors' Report



CLARK SCHAEFER HACKETT
CPAs & ADVISORS



Dave Yost • Auditor of State

Board of Education
Fairfield City School District
4641 Bach Lane
Fairfield, Ohio 45014

We have reviewed the *Independent Auditor's Report* of the Fairfield City School District, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

February 2, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fairfield City School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield City School District (the School District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield City School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and the schedules of proportionate share of net pension liability and schedules of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fairfield City School District's basic financial statements. The accompanying schedule of expenditures of federal awards 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* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017 on our consideration of Fairfield City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's 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 Fairfield City School District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 22, 2017

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

The discussion and analysis of Fairfield City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- Net position of governmental activities decreased \$484,137 which represents a 1% decrease from 2016.
- General revenues accounted for \$86,129,648 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$18,651,486 or 18% of total revenues of \$104,781,134.
- The District had \$105,265,271 in expenses related to governmental activities; \$18,651,486 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues of \$86,129,648 were also used to provide for these programs.

Overview of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The General Fund and Classroom Facilities Fund are the only major funds of the District.

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2017?" The Government-wide Financial Statements answers this question. These statements include *all assets, liabilities, and deferred outflows/inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

These two statements report the District's *net position* and changes in the net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Fund Financial Statements

The analysis of the District's major funds begins on the balance sheet. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds The District maintains one proprietary internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for self insurance of the District's workers' compensation benefits.

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

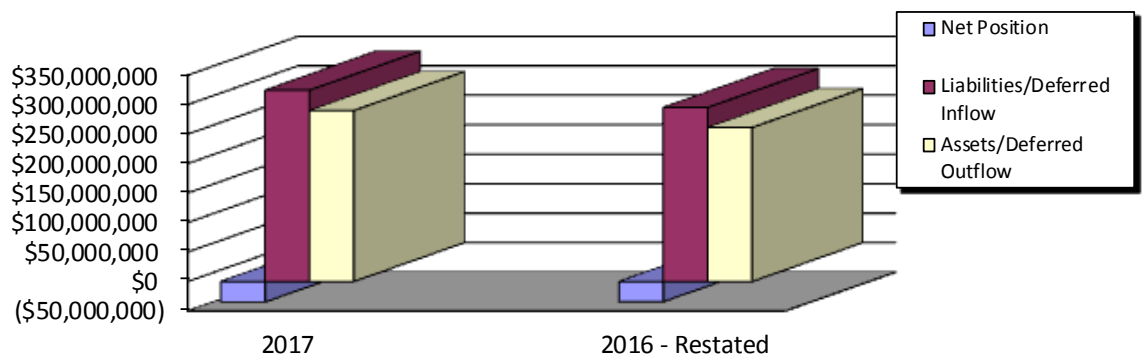
The District as a Whole

As stated previously, the Statement of Net Position looks at the District as a whole. Table 1 provides a summary of the District's net position for fiscal year 2017 compared to fiscal year 2016:

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Table 1
Net Position

	Governmental Activities	
	2017	2016 - Restated
Assets:		
Current and Other Assets	\$155,137,327	\$193,683,199
Capital Assets	106,539,089	54,566,095
Total Assets	261,676,416	248,249,294
Deferred Outflows of Resources:		
Pension	28,173,835	12,856,745
Total Deferred Outflows of Resources	28,173,835	12,856,745
Liabilities:		
Other Liabilities	22,004,350	17,033,383
Long-Term Liabilities	243,651,559	213,338,679
Total Liabilities	265,655,909	230,372,062
Deferred Inflows of Resources:		
Property Taxes	56,721,986	55,869,312
Grants and Other Taxes	1,724,318	1,597,296
Pension	315,563	7,350,757
Total Deferred Inflows of Resources	58,761,867	64,817,365
Net Position:		
Net Investment in Capital Assets	29,088,177	22,998,157
Restricted	13,771,927	19,214,708
Unrestricted	(77,427,629)	(76,296,253)
Total Net Position	(\$34,567,525)	(\$34,083,388)



Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$34,567,525.

At year-end, capital assets represented 41% of total assets. Capital assets include land, construction in progress, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2017, were \$29,088,177. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$13,771,927 represents resources that are subject to external restriction on how they must be used.

Net position of governmental activities decreased \$484,137 from 2016 to 2017. Total assets increased from 2016 to 2017 mainly due to an increase in capital assets. Total liabilities increased from 2016 to 2017 due to an increase in net pension liability.

Table 2 shows the changes in net position for fiscal years 2017 and 2016.

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Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Table 2
Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues:		
Program Revenues		
Charges for Services and Sales	\$6,534,143	\$5,812,834
Operating Grants and Contributions	12,117,343	11,539,215
General Revenues		
Property Taxes	49,982,193	51,153,987
Grants and Entitlements not Restricted to Specific Programs	33,218,484	31,786,836
Other	2,928,971	3,275,734
Total Revenues	104,781,134	103,568,606
Program Expenses		
Instruction	61,987,223	52,690,396
Support Services:		
Pupil and Instructional Staff	6,888,232	5,664,020
School Administrative, General		
Administration, Fiscal and Business	11,108,797	9,456,012
Operations and Maintenance	6,862,131	5,730,829
Pupil Transportation	7,627,099	5,574,146
Central	142,276	125,113
Operation of Non-Instructional Services	5,297,270	5,079,069
Extracurricular Activities	2,136,820	1,359,208
Interest and Fiscal Charges	3,215,423	3,283,493
Total Program Expenses	105,265,271	88,962,286
Change in Net Position	(484,137)	14,606,320
Net Position - Beginning of Year, Restated	(\$34,083,388)	N/A
Net Position - End of Year	(\$34,567,525)	(\$34,083,388)

Of the total governmental activities revenues of \$104,781,134, \$18,651,486 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 students. Of those general revenues, \$49,982,193 (58%) comes from property tax levies and \$33,218,484 (39%) is from state funding. This District's operations are reliant upon its property tax levy and the state's foundation program.

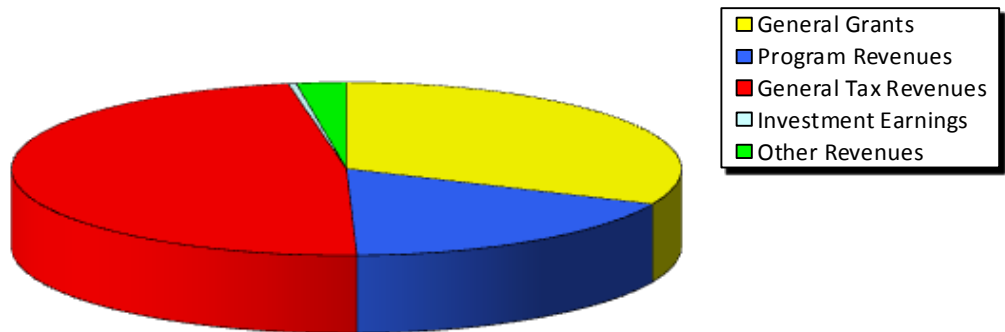
Fairfield City School District, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts do not collect additional property tax revenue on the increased value of homes that is due to appreciation and must regularly return to the voters to maintain a constant level of service. Property taxes made up 48% of revenue for governmental activities for the District in fiscal year 2017.

Governmental Activities
Revenue Sources

	<u>2017</u>	<u>Percentage</u>
General Grants	\$33,218,484	31.70%
Program Revenues	18,651,486	17.80%
General Tax Revenues	49,982,193	47.70%
Investment Earnings	431,767	0.40%
Other Revenues	<u>2,497,204</u>	<u>2.40%</u>
Total Revenue Sources	<u>\$104,781,134</u>	<u>100.00%</u>



Instruction comprises 59% of governmental program expenses. Support services expenses were 31% of governmental program expenses. All other program expenses including interest and fiscal charges were 10%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Overall revenues increased due to the District receiving more OFCC monies in 2017 for the building project, when compared to 2016. Total expenses increased in 2017 due to an increase in instruction expenses.

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction	\$61,987,223	\$52,690,396	(\$50,396,921)	(\$42,424,408)
Support Services:				
Pupil and Instructional Staff	6,888,232	5,664,020	(6,313,625)	(4,974,428)
School Administrative, General				
Administration, Fiscal and Business	11,108,797	9,456,012	(10,808,368)	(9,169,763)
Operations and Maintenance	6,862,131	5,730,829	(6,806,919)	(5,685,246)
Pupil Transportation	7,627,099	5,574,146	(7,379,979)	(5,301,181)
Central	142,276	125,113	(142,276)	(125,113)
Operation of Non-Instructional Services	5,297,270	5,079,069	(106,662)	57,179
Extracurricular Activities	2,136,820	1,359,208	(1,443,612)	(703,784)
Interest and Fiscal Charges	3,215,423	3,283,493	(3,215,423)	(3,283,493)
Total Expenses	<u>\$105,265,271</u>	<u>\$88,962,286</u>	<u>(\$86,613,785)</u>	<u>(\$71,610,237)</u>

The District's Funds

The District has two major governmental funds: the General Fund and Classroom Facilities Fund. Assets of the general fund comprised \$113,650,640 (71%), and assets of the classroom facilities comprised \$24,529,208 (15%) of the total \$159,641,800 governmental funds' assets.

General Fund: Fund balance at June 30, 2017 was \$50,221,217, an increase in fund balance of \$10,000,058 from 2016. The increase in fund balance was mainly due to the proceeds of the HVAC capital lease and the increase in the grant monies received in the fiscal year.

Classroom Facilities Fund: Fund balance at June 30, 2017 was \$10,773,314, a decrease in fund balance of \$40,589,504 from 2016. The decrease is due to an increase in capital outlay expenditures. The increase in capital outlay expenditures is due to the ongoing OFCC building project and corresponding expenditures.

Fairfield City School District, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

General Fund Budgeting Highlights

The District’s budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2017 the District amended its general fund budget at times. The District’s budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, the final budgeted revenue was \$89,578,458 and the original budgeted revenue was \$81,661,630. The difference was \$7,916,828, mostly due to underestimates in taxes and intergovernmental revenue. The final budgeted expenditures were \$90,463,760 and the original budgeted expenditures were \$78,283,051. The difference was \$12,180,709, mostly due to underestimating instruction, school administration, and pupil transportation expenditures.

The District’s final budgeted revenue and expenditures when compared to the actual revenue and expenditures had zero variances. The District’s ending unobligated actual fund balance for the General fund was \$40,365,299.

Capital Assets and Long-Term Obligations

Capital Assets

At the fiscal year end, the District had \$106,539,089 invested in land, construction in progress, buildings and improvements, and equipment. Table 4 shows fiscal year 2017 balances compared to fiscal year 2016 restated:

Table 4
Capital Assets at Year End
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016 - Restated</u>
Land	\$3,803,351	\$3,803,351
Construction in Progress	69,415,762	13,763,535
Buildings and Improvements	30,870,023	33,743,930
Equipment	<u>2,449,953</u>	<u>3,255,279</u>
Total Net Capital Assets	<u>\$106,539,089</u>	<u>\$54,566,095</u>

Overall, capital assets increased due to additions being more than depreciation expense. The additions increased due to the ongoing OFCC building project.

See note 6 in the notes to the basic financial statements for further details on the District’s capital assets.

Fairfield City School District, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Long-Term Obligations

At June 30, 2017, the District had \$92,320,865 in bonds and capital leases outstanding, \$4,431,433 due within one year. Table 5 summarizes bonds and capital leases outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2017	2016
General Obligation Bonds:		
Premium on 2014 School Improvement	\$7,149,281	\$7,404,613
2014 School Improvement	61,155,000	61,255,000
2012 Refunding of 1994 School Improvement Bonds	12,685,000	15,525,000
Premium on 2012 Refunding	722,090	902,612
2011 HB 264 Bond	1,800,180	1,997,785
2011 Cooling Project	932,820	1,035,215
Capital Leases	<u>7,876,494</u>	<u>1,980,454</u>
Total Bonds and Capital Lease	<u>\$92,320,865</u>	<u>\$90,100,679</u>

See Notes 7 and 8 in the notes to the basic financial statements for further details on the District’s outstanding debt.

For the Future

Public school districts in Ohio use a combination of state funds, local sources (such as property taxes) and federal funds. The amount of state funds that a district receives is based on a formula that takes into account the student enrollment and the property wealth of the district.

Amended House Bill 64 (HB64) addresses the state foundation funding for FY16 and FY17. There are numerous components and variables that make up the calculation for foundation funding. As a result, there are numerous reasons why an individual school district will experience changes in foundation funding across fiscal years or why one district receives more state funds than another.

The interaction of formula changes, changing characteristics of a district, and the effects of caps/guarantees can cause unexpected results. When “caps” or “guarantees” are used, the outcomes of any formula are suppressed. Because guarantees have been in place without interruption for many years, the guarantee is not necessarily to last year’s amount, but perhaps to a formula calculation from a number of years prior. This means that guaranteed/capped funding amounts are often based upon district factors, such as student population and/or property values, which are dramatically different from what currently exists. Therefore, funding levels for a district relative to prior year might be due to the impact of lessening those constraints that short-circuit formulas.

Fairfield City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Fairfield remains concerned about the instability of the state and local economy and the political ramifications of new funding models. Management is required to plan carefully and prudently the resources to meet student needs over the next several years.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer/CFO at Fairfield City School District, 4641 Bach Lane, Fairfield, Ohio 45014.

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Fairfield City School District, Ohio
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$84,094,574
Restricted Cash and Investments	1,531,835
Equity in Pooled Cash and Investments with Fiscal Agent	5,174,252
Receivables (Net):	
Taxes	57,902,038
Accounts	108,262
Interest	279,403
Intergovernmental	6,043,233
Inventory	3,730
Nondepreciable Capital Assets	73,219,113
Depreciable Capital Assets, Net	<u>33,319,976</u>
 Total Assets	 <u>261,676,416</u>
Deferred Outflows of Resources:	
Pension	<u>28,173,835</u>
 Total Deferred Outflows of Resources	 <u>28,173,835</u>
Liabilities:	
Accounts Payable	1,134,536
Accrued Wages and Benefits	8,838,999
Contracts Payable	10,067,906
Retainage Payable	1,327,992
Accrued Interest Payable	556,772
Claims Payable	78,145
Long-Term Liabilities:	
Due Within One Year	4,832,430
Due In More Than One Year	
Net Pension Liability	142,972,357
Other Amounts	<u>95,846,772</u>
 Total Liabilities	 <u>265,655,909</u>
Deferred Inflows of Resources:	
Property Taxes	56,721,986
Other Taxes	1,724,318
Pension	<u>315,563</u>
 Total Deferred Inflows of Resources	 <u>58,761,867</u>
Net Position:	
Net Investment in Capital Assets	29,088,177
Restricted for:	
Debt Service	6,568,386
Capital Projects	3,660,082
Capital Maintenance	1,706,132
Auxiliary Services	13,468
Title VI-B	781,025
Title I	311,267
Federal Grants	81,797
Food Service	573,651
Other Purposes	76,119
Unrestricted	<u>(77,427,629)</u>
 Total Net Position	 <u><u>(\$34,567,525)</u></u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2017

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$42,407,668	\$2,675,113	\$399,305	(\$39,333,250)
Special	14,769,569	934,014	6,856,719	(6,978,836)
Other	4,809,986	11,026	714,125	(4,084,835)
Support Services:				
Pupil	4,113,395	0	89,418	(4,023,977)
Instructional Staff	2,774,837	0	485,189	(2,289,648)
General Administration	10,847	0	0	(10,847)
School Administration	9,454,511	0	282,505	(9,172,006)
Fiscal	1,320,497	0	17,924	(1,302,573)
Business	322,942	0	0	(322,942)
Operations and Maintenance	6,862,131	55,212	0	(6,806,919)
Pupil Transportation	7,627,099	0	247,120	(7,379,979)
Central	142,276	0	0	(142,276)
Operation of Non-Instructional Services	5,297,270	2,165,570	3,025,038	(106,662)
Extracurricular Activities	2,136,820	693,208	0	(1,443,612)
Interest and Fiscal Charges	3,215,423	0	0	(3,215,423)
Totals	\$105,265,271	\$6,534,143	\$12,117,343	(86,613,785)

General Revenues:

Property Taxes Levied for:

General Purposes	44,834,987
Special Revenue Purposes	650,285
Debt Service Purposes	4,496,921
Grants and Entitlements, Not Restricted	33,218,484
Revenue in Lieu of Taxes	1,792,664
Unrestricted Contributions	41,409
Investment Earnings	431,767
Other Revenues	663,131

Total General Revenues 86,129,648

Change in Net Position (484,137)

Net Position - Beginning of Year, Restated (34,083,388)

Net Position - End of Year (\$34,567,525)

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2017

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$49,999,633	\$21,111,604	\$12,550,564	\$83,661,801
Restricted Cash and Investments	203,843	1,202,783	125,209	1,531,835
Equity in Pooled Cash and Investments with Fiscal Agent	5,174,252	0	0	5,174,252
Receivables (Net):				
Taxes	51,289,807	0	6,612,231	57,902,038
Accounts	107,699	0	563	108,262
Interest	213,842	61,351	4,210	279,403
Intergovernmental	1,724,318	2,153,470	2,165,445	6,043,233
Interfund	4,937,246	0	0	4,937,246
Inventory	0	0	3,730	3,730
Total Assets	113,650,640	24,529,208	21,461,952	159,641,800
Liabilities:				
Accounts Payable	952,621	0	181,915	1,134,536
Accrued Wages and Benefits	8,099,709	0	739,290	8,838,999
Compensated Absences	137,892	0	0	137,892
Contracts Payable	1,867,118	6,288,522	1,912,266	10,067,906
Retainage Payable	0	1,202,783	125,209	1,327,992
Interfund Payable	0	4,111,119	826,127	4,937,246
Total Liabilities	11,057,340	11,602,424	3,784,807	26,444,571
Deferred Inflows of Resources:				
Property Taxes	50,591,770	0	6,533,072	57,124,842
Grants and Other Taxes	0	2,153,470	1,583,739	3,737,209
Other Taxes	1,724,318	0	0	1,724,318
Investment Earnings	55,995	0	1,427	57,422
Total Deferred Inflows of Resources	52,372,083	2,153,470	8,118,238	62,643,791
Fund Balances:				
Restricted	5,174,252	10,773,314	10,063,879	26,011,445
Assigned	6,696,915	0	0	6,696,915
Unassigned	38,350,050	0	(504,972)	37,845,078
Total Fund Balances	50,221,217	10,773,314	9,558,907	70,553,438
Total Liabilities, Deferred Inflows and Fund Balances	\$113,650,640	\$24,529,208	\$21,461,952	\$159,641,800

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2017

Total Governmental Fund Balance		\$70,553,438
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		106,539,089
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes	402,856	
Interest	57,422	
Intergovernmental	<u>3,737,209</u>	
		4,197,487
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal Service Net Position		354,628
In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
		(556,772)
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences	(8,123,469)	
Workers Compensation Retro Claim Loss	<u>(96,977)</u>	
		(8,220,446)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	28,173,835	
Deferred inflows of resources related to pensions	<u>(315,563)</u>	
		27,858,272
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability	(142,972,357)	
Other Amounts	<u>(92,320,864)</u>	
		<u>(235,293,221)</u>
Net Position of Governmental Activities		<u><u>(\$34,567,525)</u></u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$44,814,085	\$0	\$5,144,647	\$49,958,732
Tuition and Fees	3,622,226	0	0	3,622,226
Investment Earnings	4,665	441,194	7,702	453,561
Intergovernmental	37,615,745	7,817,067	7,173,598	52,606,410
Extracurricular Activities	272,548	0	277,985	550,533
Charges for Services	589,721	0	1,826,451	2,416,172
Revenue in Lieu of Taxes	1,792,664	0	0	1,792,664
Other Revenues	733,941	0	25,813	759,754
Total Revenues	89,445,595	8,258,261	14,456,196	112,160,052
Expenditures:				
Current:				
Instruction:				
Regular	35,484,023	0	293,749	35,777,772
Special	11,166,731	0	2,548,528	13,715,259
Other	4,804,834	0	0	4,804,834
Support Services:				
Pupil	3,613,199	0	110,149	3,723,348
Instructional Staff	2,090,970	0	487,345	2,578,315
General Administration	10,347	0	0	10,347
School Administration	8,521,822	0	241,813	8,763,635
Fiscal	1,202,918	0	53,109	1,256,027
Business	307,755	0	0	307,755
Operations and Maintenance	5,425,022	0	0	5,425,022
Pupil Transportation	6,132,585	0	19,307	6,151,892
Central	132,530	0	0	132,530
Operation of Non-Instructional Services	479,411	0	4,517,355	4,996,766
Extracurricular Activities	1,529,678	0	360,181	1,889,859
Capital Outlay	4,239,519	48,847,765	5,649,391	58,736,675
Debt Service:				
Principal Retirement	246,699	0	3,368,055	3,614,754
Interest and Fiscal Charges	43,161	0	3,595,517	3,638,678
Total Expenditures	85,431,204	48,847,765	21,244,499	155,523,468
Excess of Revenues Over (Under) Expenditures	4,014,391	(40,589,504)	(6,788,303)	(43,363,416)
Other Financing Sources (Uses):				
Proceeds of Capital Leases	6,270,794	0	0	6,270,794
Proceeds from Sale of Capital Assets	27,991	0	0	27,991
Transfers In	0	0	313,118	313,118
Transfers (Out)	(313,118)	0	0	(313,118)
Total Other Financing Sources (Uses)	5,985,667	0	313,118	6,298,785
Net Change in Fund Balance	10,000,058	(40,589,504)	(6,475,185)	(37,064,631)
Fund Balance - Beginning of Year	40,221,159	51,362,818	16,034,092	107,618,069
Fund Balance - End of Year	\$50,221,217	\$10,773,314	\$9,558,907	\$70,553,438

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2017

Net Change in Fund Balance - Total Governmental Funds (\$37,064,631)

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

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

Capital assets used in governmental activities	57,154,300	
Depreciation Expense	<u>(2,964,726)</u>	54,189,574

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss. (2,216,580)

Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District pension contributions	7,048,373	
Cost of benefits earned net of employee contributions	<u>(12,287,459)</u>	(5,239,086)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	23,461	
Interest	(21,794)	
Intergovernmental	(7,270,585)	
Other	<u>(110,000)</u>	(7,378,918)

Repayment of bond and lease principal is an expenditure governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,614,754

In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due. (12,599)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated Absences	(491,457)	
Workers Compensation Retro Claim Loss	82,918	
Amortization of Bond Premium	<u>435,854</u>	27,315

The internal service fund used by management to charge back costs to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

Change in Net Position - Internal Service Funds (133,172)

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position. (6,270,794)

Change in Net Position of Governmental Activities (\$484,137)

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2017

	<u>Governmental Activities- Internal Service Fund</u>
Assets:	
Current Assets:	
Equity in Pooled Cash and Investments	<u>\$432,773</u>
Total Current Assets	<u>432,773</u>
Liabilities:	
Current Liabilities:	
Claims Payable	<u>78,145</u>
Total Current Liabilities	<u>78,145</u>
Net Position:	
Unrestricted	<u>354,628</u>
Total Net Position	<u>\$354,628</u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	<u>Governmental Activities- Internal Service Fund</u>
Operating Revenues:	
Other Revenues	<u>\$0</u>
Total Operating Revenues	<u>0</u>
Operating Expenses:	
Claims Expense	<u>133,172</u>
Total Operating Expenses	<u>133,172</u>
Change in Net Position	(133,172)
Net Position - Beginning of Year	<u>487,800</u>
Net Position - End of Year	<u><u>\$354,628</u></u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	<u>Governmental Activities- Internal Service Fund</u>
Cash Flows from Operating Activities:	
Cash Payments for Claims	<u>(\$120,573)</u>
Net Cash Used by Operating Activities	<u>(120,573)</u>
Net Decrease in Cash and Cash Equivalents	(120,573)
Cash and Cash Equivalents - Beginning of Year	<u>553,346</u>
Cash and Cash Equivalents - End of Year	<u><u>432,773</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(133,172)
Changes in Assets & Liabilities:	
(Decrease) in Payables	(2,114)
Increase in Claims Payables	<u>14,713</u>
Net Cash Used by Operating Activities	<u><u>(\$120,573)</u></u>

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$13,027	\$353,083
Receivables (Net):		
Accounts	0	12,472
Interest	14	0
Total Assets	<u>13,041</u>	<u>\$365,555</u>
Liabilities:		
Accounts Payable	850	66,605
Other Liabilities	0	298,950
Total Liabilities	<u>850</u>	<u>\$365,555</u>
Net Position:		
Held in Trust	<u>12,191</u>	
Total Net Position	<u>\$12,191</u>	

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2017

	Private Purpose Trust
Additions:	
Investment Earnings	\$17
Other	2,027
Total Additions	2,044
Deductions:	
Other	1,385
Total Deductions	1,385
Change in Net Position	659
Net Position - Beginning of Year	11,532
Net Position - End of Year	\$12,191

See accompanying notes to the basic financial statements.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 1 - Description of the District

The Fairfield City School District (the "District") operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The 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 agencies. This Board controls the District's instructional and support facilities staffed by approximately 422 non-certificated personnel and approximately 634 certificated full time teaching and administrative personnel to provide services to students and other community members.

The District is the 18th largest in the State of Ohio (among 613 Districts) in terms of enrollment (ADM) and the 3rd largest in Butler County. It currently operates 5 elementary schools (serving grades Preschool - 4), 1 intermediate school (serving grades 5-6), 1 middle school (serving grades 7 - 8), 1 freshman school (serving grade 9), alternative education school (serving grades 9-12), and 1 comprehensive high school (serving grades 10 - 12). The District services an area of 38 square miles.

Reporting Entity

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 District. This includes general operations, food service, and student related activities of the District.

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the 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 most significant of the District's accounting policies are described below.

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Measurement Focus

Government-wide Financial Statements

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements which provide a more detailed level of financial information.

The government-wide statements are prepared using the economic resources measurement focus. All assets, liabilities, and deferred outflows/inflows associated with the operation of the District are included on the statement of net position. Fiduciary Funds are not included in government-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and 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 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 District.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities, and deferred inflows generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The private purpose trust is reported using the economic resources measurement focus.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

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 and liabilities and deferred inflows is reported as fund balance. The following are the 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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Classroom Facilities Fund – This fund is used to account for all intergovernmental monies, bond proceeds and interest received and expended in connection with the contracts entered into by the District and the Ohio School Facilities Commission for the building and equipping of new classroom facilities.

Proprietary Funds

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The internal service fund of the District accounts for a self-insurance program which provides workers' compensation benefits to employees.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has two agency funds. The agency fund (student activities) is used to account for assets and liabilities generated by student managed activities. The fund accounts for sales and other

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

revenue generating activities by student activity programs, which have students involved in the management of the program. The agency fund (unclaimed monies) is used to account for funds that belong to others as a result of outstanding checks over one year old. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included property taxes, tax increment financing, grants, entitlements and donations. On an accrual basis, revenue from property taxes and TIF's is recognized in the fiscal year for which the taxes are 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 year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and other taxes.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources related to pension are reported on the governmental-wide statement of net position. The deferred outflows of resources related to pension are explained in Note 9.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, grants and other taxes (which include tax incremental financing 'TIF'), investment earnings, and pension. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance year 2018 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Other taxes (TIF) have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Grants and investment earnings have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. For more pension related information, see Note 9.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Equity in Pooled Cash and Investments

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" and "Equity in Pooled Cash and Investments with Fiscal Agent" on the financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2017 credited to the General Fund amounted to \$4,665, \$441,194 credited to Classroom Facilities Fund and \$7,702 credited to Other Governmental Funds.

For purposes of the statement of cash flows, the internal service portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the internal service funds without prior notice or penalty.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Equity in Pooled Cash and Investments with Fiscal Agent

The District has equity in pooled cash and investments with fiscal agent in the general fund for escrow deposits that were made for the District's HVAC capital lease.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories are accounted for using the purchase method on the fund level statements and using the consumption method on the government-wide statements.

Inventory consists of donated food.

Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair acquisition cost as of the date received. The District maintains a capitalization threshold of one thousand dollars (\$1,000). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 50 years
Equipment	5 - 10 years

Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 District will compensate the employees for the benefits through paid time off or some other means. The 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 entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the expenditures for unpaid compensated absences are recognized when due. The related liability is recorded in the account "compensated absences payable"

Fairfield City School District, Ohio
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For the Fiscal Year Ended June 30, 2017

in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How earned	Not Eligible	Not Eligible	10-25 days for each Service year depending on length of service.
Maximum Accumulation	Not Applicable	Not Applicable	25 days
Vested	Not Applicable	Not Applicable	As Earned
Termination Entitlement	Not Applicable	Not Applicable	Paid upon Termination
<u>Sick Leave</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	330 days according to bargaining agreements	360 days	330 days according to bargaining agreements
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

Pensions

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

Net Position

Net position represents the difference between assets and deferred outflows of resources, and 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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the District's \$13,771,927 in restricted net position, none was restricted by enabling legislation.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Position.

As a general rule the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education. Formal action by the Board of Education is needed to commit or rescind resources.

Assigned – resources that are intended to be used for specific purposes as approved through the District's formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenditures for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

Fairfield City School District, Ohio
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The District considers assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

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.

Restricted Assets

Restricted assets in the general fund represent equity in pooled cash and investments set aside to establish a budget stabilization reserve as well as retainage payable.

Note 3 - Equity in Pooled Cash and Investments

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

Fairfield City School District, Ohio
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- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the 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 moneys deposited with the institution.

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 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.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2017, \$18,885,267 of the District's bank balance of \$19,385,267 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Investments

As of June 30, 2017, the District had the following investments:

	<u>Fair Value</u>	<u>Fair Value Hierarchy</u>	<u>Weighted Average Maturity (Years)</u>
Federal Home Loan Bank	\$14,233,778	Level 2	2.35
Federal National Mortgage Association	21,496,429	Level 2	2.82
Federal Home Loan Mortgage	11,521,240	Level 2	1.92
Commercial Paper	15,333,174	Level 2	0.38
Negotiable CD's	1,233,230	Level 2	3.33
Money Market Funds	<u>8,356,756</u>	N/A	0.00
	<u>\$72,174,607</u>		
Portfolio Weighted Average Maturity			4.04

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 of the fair value hierarchy are valued using pricing sources, as provided by the investment managers. Level 3 inputs are significant unobservable inputs. The above table identifies the District's recurring fair value measurements as of June 30, 2017.

Interest Rate Risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the 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 the highest credit quality rating issued by nationally recognized statistical rating organizations. The District's investments in Federal Home Loan Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The District's investments in Commercial Paper was rated A-1+ by Standard and Poor's ratings and P-1 by Moody's Investors Service. Money Market Funds and Negotiable CD's are not rated.

Concentration of Credit Risk – The District's investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested 5% of the District's investments in Money Market Funds, 21% in Federal Home Loan Bank, 32% in Federal National Mortgage Association, 17% in Federal Home Loan Mortgage, 2% in Negotiable CDs, and 23% in Commercial Paper.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are registered in the name of the District.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 4 - Property Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real and public utility property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on real property at 35 percent of true 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. The District receives property taxes from Butler County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available for advance can vary based on the date the tax bills are sent.

On a full-accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

Accrued property taxes receivable represent delinquent taxes outstanding, real property, and public utility taxes which became measurable at June 30, 2017. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2017 on the fund statements. The entire amount of delinquent taxes receivable is recognized as a revenue on the government-wide financial statements. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current 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, 2017, was \$698,037 for General Fund, \$10,190 for Classroom Facilities Fund, \$68,969 for Other Governmental Funds, and is recognized as revenue.

The assessed value, by property classification, upon which taxes collected in 2017 were based as follows:

	<u>Amount</u>
Public Utility	\$53,290,300
Real Estate	<u>1,315,337,300</u>
Total	<u><u>\$1,368,627,600</u></u>

Note 5 – Receivables

Receivables at June 30, 2017, consisted of taxes, accounts (rent and student fees), intergovernmental, interest and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

Fairfield City School District, Ohio
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For the Fiscal Year Ended June 30, 2017

A summary of the principal items of intergovernmental receivables follows:

Governmental Funds:	<u>Amounts</u>
General Fund	\$1,724,318
Classroom Facilities	2,153,470
Other Governmental Funds:	
School Security	12,590
Title VI B Pre-School	1,290,735
Title III	98,415
Title I	674,183
Miscellaneous Federal	39,735
Public School Preschool	22,216
Pre-School Disabilities	8,069
Title II-A	<u>19,502</u>
Total	<u><u>\$6,043,233</u></u>

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$3,803,351	\$0	\$0	\$3,803,351
Construction in Progress	13,763,535	55,652,227	0	69,415,762
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	78,728,376	140,995	5,981,792	72,887,579
Equipment	<u>23,472,378</u>	<u>1,361,078</u>	<u>2,295,756</u>	<u>22,537,700</u>
Totals at Historical Cost	<u>119,767,640</u>	<u>57,154,300</u>	<u>8,277,548</u>	<u>168,644,392</u>
Less Accumulated Depreciation:				
Buildings and Improvements	44,984,446	1,619,225	3,940,237	42,663,434
Equipment	<u>20,217,099</u>	<u>1,345,501</u>	<u>2,120,731</u>	<u>19,441,869</u>
Total Accumulated Depreciation	<u>65,201,545</u>	<u>2,964,726</u>	<u>6,060,968</u>	<u>62,105,303</u>
Governmental Activities Capital Assets, Net	<u><u>\$54,566,095</u></u>	<u><u>\$54,189,574</u></u>	<u><u>\$2,216,580</u></u>	<u><u>\$106,539,089</u></u>

Fairfield City School District, Ohio
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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,374,031
Special	11,471
Support Services:	
Pupil	25,752
Instructional Staff	49,768
School Administration	55,160
Fiscal	545
Business	1,945
Operations and Maintenance	544,219
Pupil Transportation	788,735
Operation of Non-Instructional Services	70,569
Extracurricular Activities	42,531
Total Depreciation Expense	<u><u>\$2,964,726</u></u>

Note 7 - Long-Term Liabilities

The change in the District's long-term obligations during the year consist of the following:

	Interest Rate	Beginning Balance	Issued	Retired	Ending Balance	Due In One Year
Governmental Activities:						
Bonds:						
2014 School Improvement						
Principal	2.0-5.0%	\$61,255,000	\$0	\$100,000	\$61,155,000	\$100,000
Premium		7,404,613	0	255,332	7,149,281	0
2012 Refunding of 1994 School						
Improvement Bonds	1.5-5.0%	15,525,000	0	2,840,000	12,685,000	2,935,000
Premium on 2012 Refunding		902,612	0	180,522	722,090	0
2011 HB 264 Bond	5.3800%	1,997,785	0	197,605	1,800,180	197,605
2011 Cooling Project	0.9000%	1,035,215	0	102,395	932,820	102,395
Subtotal Bonds		88,120,225	0	3,675,854	84,444,371	3,335,000
Capital Leases		1,980,454	6,270,794	374,754	7,876,494	1,096,433
Compensated Absences		7,677,119	793,236	208,994	8,261,361	342,141
Retro Claim Loss Premium		179,895	0	82,918	96,977	58,856
Subtotal Bonds and Other Amounts		97,957,693	7,064,030	4,342,520	100,679,203	4,832,430
Net Pension Liability:						
STRS		93,320,470	21,899,680	0	115,220,150	0
SERS		22,060,517	5,691,690	0	27,752,207	0
Subtotal Net Pension Liability		115,380,987	27,591,370	0	142,972,357	0
Total Governmental Activities		<u><u>\$213,338,680</u></u>	<u><u>\$34,655,400</u></u>	<u><u>\$4,342,520</u></u>	<u><u>\$243,651,560</u></u>	<u><u>\$4,832,430</u></u>

Fairfield City School District, Ohio
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For the Fiscal Year Ended June 30, 2017

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid (usually general and special revenue funds). Capital lease obligations will be paid from the general fund and the extracurricular student activities fund.

The following is a summary of the District's future annual debt service requirements for general obligations:

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2018	\$3,335,000	\$3,475,915	\$6,810,915
2019	3,510,000	3,345,625	6,855,625
2020	3,662,000	3,215,582	6,877,582
2021	3,782,000	3,065,184	6,847,184
2022	1,563,000	2,949,984	4,512,984
2023-2027	8,326,000	13,772,412	22,098,412
2028-2032	9,505,000	11,942,575	21,447,575
2033-2037	12,850,000	9,196,500	22,046,500
2038-2042	17,190,000	5,464,750	22,654,750
2043-2045	12,850,000	984,750	13,834,750
Total	<u>\$76,573,000</u>	<u>\$57,413,277</u>	<u>\$133,986,277</u>

Note 8 - Capital Leases

The District in prior years has entered into a capital lease for buses. In the current year the District entered into a capital lease for an HVAC system.

The leases for the buses and the HVAC system meet the criteria of capital lease, which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments will be made from the General Fund for the HVAC system and buses.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of fiscal year end.

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Fiscal Year Ending June 30	Payments
2018	\$1,255,105
2019	1,255,105
2020	1,255,105
2021	1,255,104
2022	1,255,105
2023-2024	<u>2,220,347</u>
Total Minimum Lease Payments	\$8,495,871
Amount Representing Interest	<u>(619,377)</u>
Present Value of Minimum Lease Payments	<u><u>\$7,876,494</u></u>

Capital assets acquired under capital leases are as follows:

Vehicles	\$2,559,300
HVAC	6,270,794

Note 9 - Defined Benefit Pension Plans

Net Pension Liability

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

The net pension liability represents the employer’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 obligation for this liability to annually required payments. The employer cannot control benefit terms or the manner in which pensions are financed; however, the employer does receive the benefit of employees’ services in exchange for compensation including pension.

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

Fairfield City School District, Ohio
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The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the employer is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent contribution rate was allocated to the Health Care Fund.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The contractually required contribution to SERS was \$1,730,369 for fiscal year 2017. Of this amount \$354,845 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and was increased one percent each year until it reached 14 percent on July 1, 2016. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The employer was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The contractually required contribution to STRS was \$5,318,004 for fiscal year 2017. Of this amount \$888,136 is reported as accrued wages and benefits.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on the share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$27,752,207	\$115,220,150	\$142,972,357
Proportion of the Net Pension Liability			
Current Measurement Date	0.37917630%	0.34421803%	
Proportion of the Net Pension Liability			
Prior Measurement Date	<u>0.38661310%</u>	<u>0.33766406%</u>	
	-0.00743680%	0.00655397%	
Pension Expense	3,243,141	9,044,318	12,287,459

At June 30, 2017, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$374,313	\$4,655,448	\$5,029,761
Changes of assumptions	1,852,612	0	1,852,612
Net difference between projected and actual earnings on pension plan investments	2,289,154	9,566,368	11,855,522
Changes in employer proportionate share of net pension liability	269,024	2,118,543	2,387,567
Contributions subsequent to the measurement date	<u>1,730,369</u>	<u>5,318,004</u>	<u>7,048,373</u>
Total Deferred Outflows of Resources	<u>\$6,515,472</u>	<u>\$21,658,363</u>	<u>\$28,173,835</u>
Deferred Inflows of Resources			
Changes in employer proportionate share of net pension liability	<u>\$315,563</u>	<u>\$0</u>	<u>\$315,563</u>
Total Deferred Inflows of Resources	<u>\$315,563</u>	<u>\$0</u>	<u>\$315,563</u>

\$7,048,373 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year			
Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2018	\$1,140,373	\$2,833,989	\$3,974,362
2019	1,138,724	2,833,988	3,972,712
2020	1,532,405	6,504,873	8,037,278
2021	<u>658,038</u>	<u>4,167,509</u>	<u>4,825,547</u>
Total	<u>\$4,469,540</u>	<u>\$16,340,359</u>	<u>\$20,809,899</u>

Actuarial Assumptions - SERS

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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, 2016, are presented below:

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

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

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

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Discount Rate

The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the 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 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$36,742,192	\$27,752,207	\$20,227,215

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

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

Discount Rate

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	\$153,118,217	\$115,220,150	\$83,250,897

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Changes Between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the net pension liability is expected to be significant.

Note 10 - Post Employment Benefits

School Employees Retirement System

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

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at \$23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care for the years ended June 30, 2017, 2016, and 2015 were \$0, \$194,355, and \$315,703, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS did not allocate any employer contributions to post-employment health care. The District’s contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$0, \$0, and \$0, respectively.

Note 11 - Contingent Liabilities

Foundation Funding

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 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 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.

Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2017.

Litigation

The District is party to legal proceedings. The probability of loss or the amount is not currently estimable. District management estimates that all other potential claims, not covered by insurance of the District, resulting from all other litigation would not materially affect the financial statements of the District.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 12 - Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the fiscal year, the District contracted with Liberty Mutual for property and general liability insurance and boiler and machinery insurance.

General liability is protected by Liberty Mutual with \$1,000,000 each occurrence, \$2,000,000 aggregate limit. Vehicles are covered by Liberty Mutual with a \$500 deductible. Public officials' bond insurance is provided by Marsh & McLennan Agency. The Treasurer is covered by a bond in the amount of \$20,000. The District has elected to provide employee medical and dental benefits through Butler Health Plan. The employees share the cost of the monthly premium for the coverage with the Board.

There were no significant reductions in insurance coverage from the prior year. Also, there were no settlements that exceeded insurance coverage for the past three fiscal years.

Beginning in January 2011, the District began to self-insure its workers' compensation costs. Expenses for claims are recorded on the current basis based on an actuarially determined charge per employee. The District accounts for the activities of this program in an internal service fund in accordance with GASB Statement No. 10. A summary of the changes in self-insurance workers' compensation claims liability is as follows:

	<u>2017</u>	<u>2016</u>
Claims Liability at Beginning of Year	\$63,432	\$64,386
Claims Incurred	135,286	186,830
Claims Paid	<u>(120,573)</u>	<u>(187,784)</u>
Claims Liability at End of Year	<u>\$78,145</u>	<u>\$63,432</u>

Note 13 - Jointly Governed Organizations

Southwestern Ohio Computer Association

Southwestern Ohio Computer Association (SWOCA) is a jointly governed organization among a three county consortium of school districts. The jointly governed 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. Each of the governments of these schools supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is a council of governments that is governed by a Board of Directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. The Board consists of one representative from each of the participating 34 school districts.

Butler Technology and Career Development Schools

The Butler Technology and Career Development Schools is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from the participating

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

school district's elected board, which possesses its own budgeting and taxing authority. Accordingly, the Butler Technology and Career Development School is not part of the District and its operations are not included as part of the reporting entity.

Note 14 – Accountability

The following funds had a deficit in fund balance:

<u>Other Governmental Funds:</u>	<u>Deficit</u>
School Security	\$4,086
Title VI B Pre-School	89,471
Pre-School Disabilities	2,349
Extracurricular Student Activities	377,311
Title I	29,426
Title III	2,329

The deficits in fund balance were primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide transfers when cash is required not when accruals occur.

Note 15 - Statutory Reserves

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similar 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.

For fiscal year ended June 30, 2017, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set Aside Reserve Balance as of June 30, 2016	\$0	\$203,843
Current Year Set Aside Requirements	1,673,889	0
Qualified Disbursements	(2,920,213)	0
Current Year Offsets	0 *	0
Set Aside Reserve Balance as of June 30, 2017	<u>(\$1,246,324)</u>	<u>\$203,843</u>
Restricted Cash as of June 30, 2017	<u>\$0</u>	<u>\$203,843</u>

* - is a carryforward from prior years that can be used as the eligible amount to be used as a current year offsets. \$59,237 was used as the eligible offset for FY09, \$0 for FY10, \$131,981 for FY11, \$345,672

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

for FY12, \$381,875 for FY13, \$0 for FY 14, \$0 for FY 15, \$0 for FY 16, and \$0 for FY 17. \$29,445,431 will be the offset carryforward for FY17.

Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero for capital acquisition. For capital acquisition, the negative amount was a result of a bond issuance, which will be used to offset set-aside requirements in future years.

Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the Act. As of June 30, 2017, the Board had not acted on the Senate Bill requirements to eliminate the reserve balance.

Note 16 - Interfund Transactions

Interfund transactions at June 30, 2017, consisted of the following interfund receivables and interfund payables and transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$4,937,246	\$0	\$0	\$313,118
Classroom Facilities	0	4,111,119	0	0
Other Governmental Funds	0	826,127	313,118	0
Total All Funds	<u>\$4,937,246</u>	<u>\$4,937,246</u>	<u>\$313,118</u>	<u>\$313,118</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 17 – Fund Balances

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

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Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Fund Balances	General	Classroom Facilities	Other Governmental Funds	Total
Restricted for:				
HVAC Lease	\$5,174,252	\$0	\$0	\$5,174,252
SchoolNet OneNet	0	0	3,223	3,223
Spring Recognition	0	0	50,385	50,385
Auxiliary Services	0	0	73,774	73,774
Classroom Facilities Maintenance	0	0	1,702,137	1,702,137
Miscellaneous Federal	0	0	14,764	14,764
Title II-A	0	0	1,360	1,360
Food Service	0	0	735,789	735,789
Debt Service	0	0	7,052,328	7,052,328
Classroom Facilities Building	0	10,773,314	0	10,773,314
Permanent Improvement	0	0	1,121	1,121
Total Restricted	5,174,252	10,773,314	10,063,879	26,011,445
Assigned to:				
Public School Support	303,968	0	0	303,968
Encumbrances	6,392,947	0	0	6,392,947
Total Assigned	6,696,915	0	0	6,696,915
Unassigned (Deficit)	38,350,050	0	(504,972)	37,845,078
Total Fund Balance	\$50,221,217	10,773,314	\$9,558,907	\$70,553,438

Note 18 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2017, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, and GASB Statement No. 80, *Blending Requirements For Certain Component Units – An Amendment of GASB No. 14*.

GASB Statement No. 77 establishes improved financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government’s future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government’s financial position and economic condition. The implementation of GASB Statement No 77 did not have an effect on the financial statements of the District, other than the disclosures found in Note 19.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

Fairfield City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 19 – Tax Abatements entered Into By Other Governments

Other governments entered into property tax abatement agreements with property owners under the Ohio Community Reinvestment Area (“CRA”) program with the taxing districts of the District. The CRA program is a directive incentive tax exemption program benefiting property owners who renovate or construct new buildings. Under this program, the other governments designated areas to encourage revitalization of the existing housing stock and the development of new structures. Within the taxing districts of the District, the City of Fairfield (City) has entered into such an agreement. Under this agreement the District’s property taxes were reduced by approximately \$594,836. The District received \$413,890 from the City in association with the forgone property tax revenue.

Note 20 – Restatement of Net Position

The restatement of net position is due to the District changing the useful life of capital assets, and it had the following effect on net position as reported June 30, 2016:

Net position June 30, 2016	(\$10,351,366)
Adjustments:	
Restatement of Net Capital Assets	<u>(23,732,022)</u>
Restated Net Position June 30, 2016	<u><u>(\$34,083,388)</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

Fairfield City School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years (1)

	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.34421803%	0.33766406%	0.33398361%	0.33398361%
District's Proportionate Share of the Net Pension Liability	\$115,220,150	\$93,320,470	\$81,236,372	\$96,507,633
District's Covered-Employee Payroll	\$36,362,914	\$34,408,800	\$36,748,815	\$37,901,538
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	316.86%	271.21%	221.06%	254.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) - Information prior to 2014 is not available

Note - Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the Required Supplementary Information.

Fairfield City School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Four Fiscal Years (1)

	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.37917630%	0.38661310%	0.37768000%	0.37768000%
District's Proportionate Share of the Net Pension Liability	\$27,752,207	\$22,060,518	\$19,114,170	\$22,466,151
District's Covered-Employee Payroll	\$11,775,807	\$12,363,202	\$11,085,491	\$13,815,087
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	235.67%	178.44%	172.43%	162.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) - Information prior to 2014 is not available

Note - Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the Required Supplementary Information.

Fairfield City School District
 Required Supplementary Information
 Schedule of District Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$5,318,004	\$5,090,808	\$4,817,232	\$4,777,346	\$4,927,200
Contributions in Relation to the Contractually Required Contribution	<u>(5,318,004)</u>	<u>(5,090,808)</u>	<u>(4,817,232)</u>	<u>(4,777,346)</u>	<u>(4,927,200)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$37,985,743	\$36,362,914	\$34,408,800	\$36,748,815	\$37,901,538
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%

See accompanying notes to the Required Supplementary Information.

2012	2011	2010	2009	2008
\$5,362,812	\$5,687,592	\$5,424,396	\$5,328,288	\$5,334,852
(5,362,812)	(5,687,592)	(5,424,396)	(5,328,288)	(5,334,852)
\$0	\$0	\$0	\$0	\$0
\$41,252,400	\$43,750,708	\$41,726,123	\$40,986,831	\$41,037,323
13.00%	13.00%	13.00%	13.00%	13.00%

Fairfield City School District
 Required Supplementary Information
 Schedule of District Contributions
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$1,730,369	\$1,648,613	\$1,629,470	\$1,536,449	\$1,912,008
Contributions in Relation to the Contractually Required Contribution	<u>(1,730,369)</u>	<u>(1,648,613)</u>	<u>(1,629,470)</u>	<u>(1,536,449)</u>	<u>(1,912,008)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$12,359,779	\$11,775,807	\$12,363,202	\$11,085,491	\$13,815,087
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%

See accompanying notes to the Required Supplementary Information.

2012	2011	2010	2009	2008
\$2,045,640	\$2,302,656	\$2,123,316	\$1,934,328	\$1,845,012
(2,045,640)	(2,302,656)	(2,123,316)	(1,934,328)	(1,845,012)
\$0	\$0	\$0	\$0	\$0
\$15,209,219	\$18,318,663	\$15,681,802	\$19,657,805	\$18,788,310
13.45%	12.57%	13.54%	9.84%	9.82%

Fairfield City School District, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2017

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$41,653,380	\$45,691,539	\$45,691,539	\$0
Payments in lieu of taxes	1,634,231	1,792,664	1,792,664	0
Tuition and Fees	2,848,074	3,124,186	3,124,186	0
Investment Earnings	538,492	590,697	590,697	0
Intergovernmental	34,291,314	37,615,745	37,615,745	0
Extracurricular Activities	167,414	183,644	183,644	0
Other Revenues	528,725	579,983	579,983	0
Total Revenues	81,661,630	89,578,458	89,578,458	0
Expenditures:				
Current:				
Instruction:				
Regular	31,551,603	36,460,979	36,460,979	0
Special	9,705,504	11,215,664	11,215,664	0
Other	4,173,534	4,822,929	4,822,929	0
Support Services:				
Pupil	2,881,194	3,329,503	3,329,503	0
Instructional Staff	2,174,903	2,513,314	2,513,314	0
General Administration	13,275	15,340	15,340	0
School Administration	7,582,271	8,762,059	8,762,059	0
Fiscal	1,049,450	1,212,743	1,212,743	0
Business	274,070	316,715	316,715	0
Operations and Maintenance	5,944,075	6,868,963	6,868,963	0
Pupil Transportation	6,220,122	7,187,962	7,187,962	0
Central	115,091	132,999	132,999	0
Extracurricular Activities	1,199,855	1,386,550	1,386,550	0
Capital Outlay	5,398,104	6,238,040	6,238,040	0
Total Expenditures	78,283,051	90,463,760	90,463,760	0
Excess of Revenues Over (Under) Expenditures	3,378,579	(885,302)	(885,302)	0
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	25,517	27,991	27,991	0
Advances In	8,649,177	9,487,687	9,487,687	0
Advances (Out)	(4,480,319)	(5,177,449)	(5,177,449)	0
Transfers In	285,445	313,118	313,118	0
Transfers (Out)	(541,915)	(626,236)	(626,236)	0
Total Other Financing Sources (Uses)	3,937,905	4,025,111	4,025,111	0
Net Change in Fund Balance	7,316,484	3,139,809	3,139,809	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	37,225,490	37,225,490	37,225,490	0
Fund Balance End of Year	\$44,541,974	\$40,365,299	\$40,365,299	\$0

See accompanying notes to the required supplementary information.

Fairfield City School District, Ohio
Notes to the Required Supplementary Information
For The Year Fiscal Ended June 30, 2017

Note 1 - Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Board. The legal level of control has been established by Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. During the course of fiscal 2017, the District amended its budget at several times.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2017.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Board during the year. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

While the District is reporting financial position, results of operations and changes in fund balance 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) 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 as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.
5. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

Fairfield City School District, Ohio
Notes to the Required Supplementary Information
For The Year Fiscal Ended June 30, 2017

The following table summarizes the adjustments necessary to reconcile the GAAP basis to the budgetary basis for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$10,000,058
Revenue Accruals	138,002
Expenditure Accruals	3,856,832
Proceeds of Capital Leases	(6,270,794)
Transfers In	313,118
Transfers Out	(313,118)
Advances In	9,487,687
Advances Out	(5,177,449)
Encumbrances	(8,898,274)
Funds Budgeted Elsewhere	3,747
Budget Basis	<u><u>\$3,139,809</u></u>

Note 2 – SERS Change in Assumptions

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (1) discount rate was reduced from 7.75% to 7.50%, (2) the assumed rate of inflation was reduced from 3.25% to 3.00%, (3) payroll growth assumption was reduced from 4.00% to 3.50%, (4) assumed real wage growth was reduced from 0.75% to 0.50%, (5) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (6) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (7) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (8) mortality among disabled members was updated to 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.

Note 3 – STRS Change in Assumptions

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

Fairfield City School District
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2017

<u>Federal Grantor/Program Title</u>	<u>Pass-Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2017	10.555	\$ 255,115	255,115
<i>Cash Assistance:</i>				
School Breakfast Program	2017	10.553	313,451	313,451
National School Lunch Program	2017	10.555	<u>1,533,530</u>	<u>1,533,530</u>
<i>Cash Assistance Subtotal</i>			<u>1,846,981</u>	<u>1,846,981</u>
Nutrition Cluster Total			<u>2,102,096</u>	<u>2,102,096</u>
Total U.S. Department of Agriculture			<u>2,102,096</u>	<u>2,102,096</u>
<u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I:				
Title I Grants to Local Educational Agencies (Title I Neglected)	S010A150035	84.010	15,674	12,032
Title I Grants to Local Educational Agencies (Title I Neglected)	S010A160035	84.010	3,132	3,365
Title I Grants to Local Educational Agencies	S010A150035	84.010	281,899	224,122
Title I Grants to Local Educational Agencies	S010A160035	84.010	<u>1,169,171</u>	<u>1,227,994</u>
			<u>1,469,876</u>	<u>1,467,513</u>
Special Education Cluster:				
Special Education - Grants to States	H027A150111	84.027	306,998	234,338
Special Education - Grants to States	H027A160111	84.027	1,481,184	1,578,756
Special Education - Preschool Grants	H173A150119	84.173	4,980	3,725
Special Education - Preschool Grants	H173A160111	84.173	<u>22,275</u>	<u>23,785</u>
			<u>1,815,437</u>	<u>1,840,604</u>
English Language Acquisition State Grants	2016	84.365	69,759	16,337
English Language Acquisition State Grants	S365A160035	84.365	72,761	130,865
English Language Acquisition State Grants (Immigrant)	2016	84.365	38	38
English Language Acquisition State Grants (Immigrant)	S365A160035	84.365	<u>5,369</u>	<u>5,369</u>
			<u>147,927</u>	<u>152,609</u>
Supporting Effective Instruction State Grant	S367A150034	84.367	20,507	14,556
Supporting Effective Instruction State Grant	S367A160034	84.367	<u>155,234</u>	<u>161,012</u>
			<u>175,741</u>	<u>175,568</u>
Total U.S. Department of Education			<u>3,608,981</u>	<u>3,636,294</u>
<u>U.S. Department of Health and Human Services:</u>				
Drug Free Communities Support Program (2016)	SP020927	93.276	30,753	30,617
Drug Free Communities Support Program (2017)	SP020927	93.276	<u>85,265</u>	<u>88,910</u>
Total U.S. Department of Health and Human Services			<u>116,018</u>	<u>119,527</u>
Total Federal Awards			<u>\$ 5,827,095</u>	<u>5,857,917</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Fairfield City School District (the "School District") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented 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 School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the entitlement value of the commodities received and disbursed.

NOTE D - NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fairfield City School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield City School District ("School District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompany scheduled of findings and questioned costs as 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School District's Response to the Finding

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 22, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE****INDEPENDENT AUDITORS' REPORT**

To the Board of Education
Fairfield City School District:

Report on Compliance for Each Major Federal Program

We have audited Fairfield City School District's ("School District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2017. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 was not designed to 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 22, 2017

Fairfield City School District
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued :	unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	yes
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	none
Identification of major programs:	
<i>CFDA 84.010 – Title I Grants to Local Educational Agencies</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

Finding 2017-001 – Financial Reporting

Condition: We identified misstatements in the financial statements for the year under audit that were not initially identified by the School District's internal control over financial reporting. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in operation exists when a properly designed control does not operate as designed. In this case, the internal controls over the preparation and review of the School District's financial statements did not operate as designed and we consider this a material weakness.

We identified an error in the School District's calculation of accumulated depreciation which was the result of depreciating assets acquired in 1996 and prior using estimated useful lives which were not in accordance with the School District's policy. The School District's policy is to depreciate buildings over 40 years. Audit adjustments were necessary to correct both current year depreciation expense and restate the prior year financial statements.

In addition, we proposed an audit adjustment to properly record the inception of a capital lease in the current year.

Recommendation: We recommend the School District enhance its internal controls over financial reporting to ensure the preparation of complete and accurate financial statements in conformity with general accepted accounting principles.

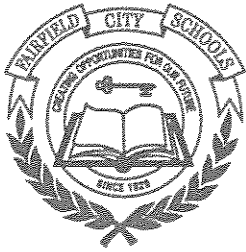
Management's Response: Depreciation of buildings was set at 99 years in the District's inventory system. Based on the recommendation by the auditors, we will be updating our inventory system to reflect depreciation over a 40-year period for buildings/facilities. We concur with the other audit adjustment.

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Schedule of Prior Audit Findings

None



Fairfield City Schools

Office of the Treasurer

4641 Bach Lane • Fairfield, Ohio 45014
Phone (513) 829-6300 • Fax (513) 829-0148

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
June 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	We will update our inventory system to reflect depreciation over a 40-year period for buildings in accordance with our capitalization policy.	6/30/18	Nancy Lane, Treasurer

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Dave Yost • Auditor of State

FAIRFIELD CITY SCHOOL DISTRICT

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2018**